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Financial Statement Audit

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006

Australian National Audit Office

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Canberra ACT
19 December 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken audits of the financial statements of Australian Government entities and examinations and inspections of the accounts and records of those entities in accordance with the authority contained in the contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Contents

Abbreviations

AAO	Administrative Arrangement Orders
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
ACMA	Australian Communications and Media Authority
AFP	Australian Federal Police
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
AUS	Australian Auditing Standard
BCM	Business Continuity Management
BCP	Business Continuity Plans
BEFR	Budget Estimates and Framework Review
BPG	Better Practice Guide
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CEIs	Chief Executive's Instructions
CE	Chief Executive
CFO	Chief Finance Officer
CFS	Consolidated Financial Statements
CobiT	Control Objectives for Information and Related Technology
CSA	Child Support Agency
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Customs	Australian Customs Service
DAFF	Department of Agriculture, Fisheries and Forestry
DCITA	Department of Communications, Information Technology and the Arts
Defence	Department of Defence
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DHS	Department of Human Services

DIMA	Department of Immigration and Multicultural Affairs
DITR	Department of Industry, Tourism and Resources
DMO	Defence Materiel Organisation
DoEH	Department of the Environment and Heritage
DoHA	Department of Health and Ageing
DoTARS	Department of Transport and Regional Services
DVA	Department of Veterans' Affairs
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
FMA Act	*Financial Management and Accountability Act 1997*
FMIS	Financial Management Information System
FMOs	Finance Minister's Orders
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GGS	General Government Sector
HIC	Health Insurance Commission
HRMIS	Human Resources Management Information System
IFRS	International Financial Reporting Standards
IT	Information Technology
ICT	Information and Communications Technology
JCPAA	Joint Committee of Public Accounts and Audit
PM&C	Department of the Prime Minister and Cabinet
RBA	Reserve Bank of Australia
SAP	An integrated software solution providing a wide range of business functions. Used by a large number of Australian Government entities as their FMIS
Treasury	The Treasury

Foreword

Each year the Australian National Audit Office (ANAO) issues two reports on the results of the audits of the financial statements of Australian Government reporting entities. This report provides a summary of the final results of these audits, including the audit of the Consolidated Financial Statements of the Australian Government, for the financial year ended 30 June 2006. This report also brings to attention some contemporary issues and practices impacting on public sector financial reporting and governance. The results of the interim phase of the financial statement audits of significant entities were reported in Audit Report No.48 2005–06, *Interim Phase of the Audit of General Government Sector Entities for the Year Ending 30 June 2006*.

For the Australian Public Sector (APS), the preparation and publication of annual audited financial statements, in accordance with the Australian Accounting Standards and the Finance Minister's Orders[1] is a fundamental mechanism by which Australian Government organisations meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of financial management processes is the timely finalisation of the financial statements, accompanied by an unqualified audit opinion.

Public sector entities are expected to have in place effective project management arrangements that underpin financial statement preparation processes, including the early recognition and resolution of issues that impact on the financial statements. The results of our audits have shown that organisations that maximise the alignment of their monthly financial reporting processes with year-end financial preparation processes have greater success in meeting the deadlines imposed by Government.

The results of the final phase of the audit of entities' 2005–06 financial statements showed that 80 per cent of material entities and 60 per cent of non-material entities met the deadlines for the submission of audit cleared financial information to the Department of Finance and Administration (Finance).

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1 The Finance Minister's Orders (FMOs) made by the Minister for Finance and Administration set out the requirements for the preparation of financial statements of all reporting entities covered by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

A broad range of internal control issues were raised as part of the final audit phase, particularly in relation to business continuity planning, the performance of key reconciliations and management of the IT control environment, including access controls. These matters were consistent with issues that arose from the interim audit phase and those of previous years. In general, the results again demonstrate that internal controls in business and accounting processes require regular monitoring and attention by entities. Nevertheless, entities have made reasonable progress in addressing audit findings previously raised.

To assist in the enhancement of public sector financial statement preparation the ANAO issued, in April 2006, a better practice guide (BPG) on the preparation of financial statements[2]. This Guide is a means for the better practices employed in some organisations to be communicated to all, and I commend the use of the information collated in this guide to improve processes where applicable. It is pleasing to note a number of entities have already assessed their financial statement processes against this Guide, and implemented improvements in this area.

The audit report on the 2005–06 Consolidated Financial Statements (CFS) of the Australian Government was issued on 30 November 2006. The audit report expressed the opinion that the financial statements were true and fair except for qualifications relating to two material issues. The finalisation of the CFS was impacted by the time required to finalise a number of entities' financial statements, including those of the Department of Defence (Defence), and to resolve some issues in relation to the transition to the Australian Equivalents to International Financial Reporting Standards (AEIFRS). It was pleasing that significant progress was made in the removal of some previous qualifications to the CFS. Firstly, the change in accounting policy to recognise taxation revenue, introduced in the context of the 2006–07 Budget and adopted in the 2005–06 CFS, enabled the removal of the long standing audit qualification concerning the appropriate point at which to recognise revenue. Secondly, the severity of the qualification on the financial statements of Defence was significantly reduced this year with positive flow-on effects to the 2005–06 CFS.

Of particular note, 2005–06 saw the first year of reporting under AEIFRS for most Australian Government entities. There were a number of major impacts on the financial statements of Australian Government entities on transition to

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[2] ANAO Better Practice Guide *Preparation of Financial Statements by Public Sector Entities*, April 2006

AEIFRS, requiring detailed and rigorous analysis. It was pleasing that most entities analysed the potential financial and disclosure impacts early and rigorously. There were however, some entities that would have benefited from an earlier consideration of the implications of these new requirements, so as to minimise delays during the financial statement preparation process for these entities at year end.

The successful implementation of continuing accounting and financial reporting reforms has been a credit to the hard work of many staff of Australian Government entities with support from their executive management, and a wider network of contractors. The demand for skilled resources continues to be high and it is a challenge for organisations to continue to retain and attract sufficient accounting resources to meet the financial accountability requirements.

Legislative compliance also continues to be a focus for Australian Government entities, and therefore the ANAO. Finance has implemented, commencing for the 2006–07 year, a requirement for the Chief Executives (CEs) of all agencies subject to the *Financial Management and Accountability Act 1997* to sign an annual Certificate of Compliance. CEs will be required to certify compliance with all financial legislation, regulations, and official guidance issued by Finance.

The above issues in relation to financial reporting reforms and the focus on legislative compliance, particularly in the context of the current environment where specialist skills are at a premium, will continue to be a challenge for entities in the coming year. In this regard, the ANAO supports the recent review undertaken of the Australian Government's financial reporting deadlines, particularly recognising the resource costs that a further compression of the deadlines would involve for many entities, as well as the ANAO.

Finally, I would like to acknowledge the professionalism and commitment of my staff in assisting entities with guidance, in resolving issues in completing the audits of the financial statements of Australian Government entities for 2005–06, and in conducting the work that culminated in this report.

In addition, I would like to acknowledge the work performed by Chief Finance Officers and entity staff involved in financial statement preparation. The collective contribution of these individuals is continuing to enhance public sector financial reporting.

Ian McPhee

Auditor-General

Summary

Executive Summary

Overview

1. The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Commonwealth entities including those of government departments, statutory authorities and government business enterprises.

2. Financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant accounting standards, and legislative and other reporting requirements.

3. In addition to undertaking financial statement audits, the Australian National Audit Office (ANAO) delivers two reports annually to Parliament addressing the outcomes of the financial statement audit process. The first of these, Audit Report No.48 2005–06, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006* provided an update of the ANAO's assessment of audit findings relating to the internal controls of major entities, including governance arrangements, information systems and control procedures through to March 2006. The findings summarised in that report arose from the interim phase of the financial statement audits of major Australian Government reporting entities. This interim phase of an audit program is designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes.

4. This report, *Audits of the Financial Statements of Australian Government Entities*, complements the first report mentioned above, and provides a summary of the final audit results of the audits of the financial statements of all Australian Government reporting entities, including the Consolidated Financial Statements for the Australian Government.

5. The audit findings in this report have been reported to the management of the entity, and to the responsible Minister(s).

Results of the audits of financial statements

6. The ANAO is responsible for the audit of the financial statements of the Australian Government entities. For the 2005–06 financial year, the ANAO has issued 214 unmodified audit opinions (clear opinions); 2 'qualified' audit opinions; 6 audit reports containing an 'emphasis of matter'; and 3 audit reports containing 'other statutory matters'. At the date of this report, 13 sets of financial statements were still being audited. The above includes opinions issued on 4 entities that ceased operations during 2005–06.

7. The material portion of the Australian Government's income, expenses, assets and liabilities in the 2005–06 financial year are accounted for by a relatively small number of Australian Government entities, notably, Telstra, the Departments of Defence, Employment and Workplace Relations, Families, Community Services and Indigenous Affairs, Finance and Administration, Health and Ageing, Treasury, the Australian Office of Financial Management, the Australian Taxation Office and the Reserve Bank of Australia.

8. The focus of this report is on the year end results of the financial statement audits of all general purpose reporting entities for the 2005–06 financial year. Financial management issues (where relevant) arising out of the audits and their relationship to internal control structures are also included in this report.

The report is organised as follows:

- Chapter One—Financial Reporting and Auditing Frameworks—provides commentary on recent developments in the financial reporting and auditing frameworks under which the Australian Government and its reporting entities operate.
- Chapter Two—Results of the Audit of the Consolidated Financial Statements of the Australian Government—provides details of the audit of the Consolidated Financial Statements for 2005–06.
- Chapter Three—Summary Results of the Audits of Financial Statements—describes the final results of audits of the financial statements, and provides details of qualifications and any matters emphasised in audit reports.
- Chapter Four—The Financial Statement Preparation Process—provides an overview of the major issues and challenges involved in the timely

preparation and audit of the financial statements of Australian Government entities.

- Chapter Five—Results of the Audits of Financial Statements by Portfolio—provides the detailed results of the individual financial statement audits and any additional significant control matters identified since Audit Report No.48 2005–06. It is structured in accordance with the portfolio arrangements established by the Administrative Arrangements Order of 27 January 2006. For reporting purposes, this reflects the portfolio arrangements which existed at 30 June 2006.

1. Financial Reporting and Auditing Frameworks

This chapter provides commentary on recent developments in the financial reporting and auditing frameworks under which the Australian Government and its reporting entities operate.

Introduction

1.1 During 2005–06 there has been a range of national and international developments which have affected, or are likely to influence, public sector accounting and auditing. Previous ANAO reports have discussed many of these developments and outlined their potential impact on financial reporting for the Australian Government and its reporting entities. Financial reporting reforms gathered momentum during 2005–06. This chapter canvasses more recent and proposed developments.

1.2 By way of an overview, major developments include:

- the call by the Financial Reporting Council (FRC), which is responsible for setting the strategic direction for the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB), for public submissions in response to a research report it commissioned into the future approach to setting accounting standards for not-for-profit entities in the public and private sectors;
- the continuing development by the AASB of its approach to dealing with accounting issues affecting the public sector. The AASB has set out its proposals in a Policy Paper and has sought comments from its constituents;
- the release by the AASB of an accounting standard, which incorporates Government Finance Statistics (GFS), for financial reporting of General Government Sectors by Government from 2008–09;
- the application in 2005–06 of the Australian equivalents to International Financial Reporting Standards (AEIFRS) to Australian government entities; and
- the development of the 'Certificate of Compliance' which will see Australian Government agencies explicitly certify their compliance

with a range of financial management, legal and policy requirements. This will be introduced in 2006–07.

1.3 The standard setting framework, for accounting and auditing, in the Australian Government context is illustrated at Appendix 3 of this report.

Public sector accounting standards

1.4 In accordance with its responsibility to provide broad strategic direction to the AASB, the FRC issued 2 specific directions to the AASB in 2002. The first directed the adoption of international financial reporting standards; the second directed the harmonisation of Generally Accepted Accounting Principles (GAAP) reporting with Government Finance Statistics (GFS). The latter direction was in response to concerns about the potential confusion that arises from statisticians, economists and accountants all applying accrual principles but reporting different results for the same public sector entity.[3]

1.5 In November 2005, the FRC commissioned a research project to assist it in considering possible modifications to its strategic direction to the AASB, in particular in relation to the public and other not-for-profit sectors. Currently, AASB policy is to issue 'sector–neutral' pronouncements.[4] The FRC appointed a consultant to undertake research into how adequately a 'sector neutral' approach to the development of accounting standards can meet the information needs of users of financial statements and the public interest more generally'.

1.6 A consultation paper titled *The Use of a Sector Neutral Framework for Making Australian Accounting Standards* was developed and tabled at a FRC meeting on 22 June 2006. After consideration, the FRC made the report available for public comment via the FRC website.[5] Submissions were invited from respondents by no later than 31 October 2006. I was a party to a joint submission by Australian Auditors–General.[6]

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3 This information is contained in the Project Summary – *AASB GAAP/GFS Harmonisation Project*, which is available on the AASB website <www.aasb.com.au>.

4 'Sector neutrality' as it is commonly referred to is also known as 'transaction neutrality', as noted in AASB Action Alert No. 98.

5 *The Use of a Sector Neutral Framework for Making Australian Accounting Standards–FRC consultation paper* available on FRC website <www.frc.gov.au>.

6 Australian Auditors–General often comment jointly on financial reporting and auditing matters under the banner of the Australasian Council of Auditors–General (ACAG).

1.7 The outcomes of the FRC's consideration of the consultation paper may have an important bearing on the future direction of standard setting for not-for-profit entities in the public and private sector.

1.8 Respondents to the paper were asked to respond to 10 questions, including:

- how well the needs of users of financial reports are met;
- the appropriateness of a conceptual framework for standard setting that is common to all sectors;
- the desirability of having common or separate standards for different types of entity, and if separate, whether an appropriate basis for the public sector would be IFRS,[7] IPSAS,[8] GFS or a combination; and
- if a single set of standards is retained, whether there should continue to be government-specific standards.

1.9 Interestingly, the International Accounting Standards Board (IASB) has commenced a review of the Conceptual Framework underpinning its standards (and hence AEIFRS) in conjunction with the United States' Financial Accounting Standards Board (FASB). FASB makes accounting standards for for-profit and not-for-profit entities in the private sector. The project is not planning to consider concepts for public sector entities. It has commenced by considering the objective of financial reporting and the qualitative characteristics of financial reports.

1.10 Given the focus of the IASB/FASB project, the AASB and three other national standard setters[9] are monitoring the project from the not-for-profit perspective. A 'Preliminary Views' document produced by this monitoring group has noted that the project:

- gives an insufficient emphasis on accountability;

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[7] IFRS are International Financial Reporting Standards, made by the International Accounting Standards Board for financial reporting by for–profit entities. As noted in paragraphs 1.24, these standards are the basis for current Australian Standards for both profit and not–for–profit entities.

[8] IPSAS are International Public Sector Accounting Standards made by the IPSAS Board, which is established under the auspices of IFAC, the International Federation of Accountants. IPSAS Board Standards are currently based on earlier versions of IASB Standards. However, the IPSAS Board has important projects underway on public sector specific topics (refer to paragraph 1.15).

[9] The monitoring group consists of Chairs and Senior Staff of the Australian, United Kindgom, Canadian and Canadian Public Sector Accounting Standards Boards and New Zealand Financial Reporting Standards Board.

- needs to broaden identified users of financial reports and establish an alternative primary user group; and
- concentrates excessively on financial reports providing users with information to assess an entity's future cash flows.

1.11 The AASB has itself been developing an approach to dealing with public sector issues.[10] The AASB has reviewed the three accounting standards which are specific to the public sector, AAS 27 *Financial Reporting by Local Government*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*, and published a paragraph-by-paragraph analysis of them which, together with a number of issues papers dealing with the treatment of particular paragraphs, formed a basis for discussion with public sector stakeholders at its October 2006 meeting.

1.12 In keeping with its policy of issuing sector-neutral standards,[11] the AASB intends to issue for public comment, in December 2006, an exposure draft for a standard to withdraw AASs 27, 29 and 31 and to re-locate, generally without substantive amendment, the specific requirements and guidance in other topic-based standards. The Board is proposing to finalise the standard in April 2007. The changes are expected to apply in 2007–08, with early adoption permitted.[12] Possible substantive changes in the short-term are few but may include providing guidance on depreciation of heritage and cultural assets and extending the provisions for accounting for administrative restructuring, now applying to government departments, to all government controlled entities.

1.13 For the longer term, the AASB proposes to address shortcomings in AASs 27, 29 and 31 identified by its review and other substantive issues for public sector reporting. The issues include revenue recognition, liabilities arising from social policy obligations, control of an entity, service concessions (public–private partnerships), heritage and cultural assets, segment reporting, administered items, related party disclosures for not–for–profit public sector

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[10] Previous Audit Reports (ANAO Audit Reports No. 21 *2005–2006 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006* and No.48 2005–2006 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ended 30 June 2006)* have referred to the AASB's approach to public sector accounting standards.

[11] The AASB issues 'sector–neutral' pronouncements, that is, pronouncements that are applicable to both for–profit and not–for–profit entities, including public sector entities. Additions are made to an International Financial Reporting Standard or Interpretation, where necessary, to broaden the content to cover sectors not addressed by the international pronouncement and domestic, regulatory or other issues.

[12] Previous strategy papers indicated an intended application in 2006–07.

reporting entities (including disclosures relating to executive and director remuneration) and budget reporting.

1.14 Details of the AASB's plans and approach are documented in the AASB's Public Sector Policy Paper (last updated as at 24 October 2006)[13] and in the agenda papers made available for public consultation at the AASB's October 2006 meeting.

1.15 Progress on a number of these matters is linked to the outcomes of projects being undertaken internationally by the IASB and the International Public Sector Accounting Standards Board (IPSASB), e.g. revenue recognition, liabilities arising from public policies and budget reporting.[14] Other issues, which may receive earlier attention, include proposals for accounting for the administered activities of government departments. Alternatives being considered include consideration of whether the distinction between administered and departmental items should be retained. A separate exposure draft on accounting for administered items may be issued early in 2007.

1.16 In Audit Report No.48 2005–2006, I expressed my support for the presumption of sector-neutrality in setting accounting standards, but was concerned that, given the marked differences between the for-profit and public sectors, the withdrawal of AASs 27, 29 and 31 would diminish the AASB's focus on public sector issues and the likelihood that the issues would be considered in an integrated public sector context.

1.17 In its response to the FRC Consultation Paper, ACAG was encouraged by the greater prominence that the AASB was giving to public sector matters. ACAG expressed its continuing support for a single accounting standards framework and one set of accounting standards, based on an approach giving full and appropriate attention to the needs of both for-profit and not-for-profit sectors. ACAG observed, nevertheless, that an enhanced conceptual framework might reveal sufficient divergence between the sectors' reporting needs to warrant public sector specific standards on certain topics.

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[13] The *AASB Public Sector Policy Paper* is available at <www.aasb.com.au>. The Paper is intended to be updated as necessary. The 24 October 2006 version is itself an update of the previous version as at 14 July 2006 and the previous AASB Public Sector Strategy Papers as at 28 February 2006 and 16 November 2005.

[14] The AASB has provided comments on an IPSASB exposure draft for a standard on *Revenue from Non-exchange Transactions (including Taxes and Transfers)*. The AASB will continue to monitor relevant IASB projects, including one on liability and revenue recognition. An IPSASB project on liabilities arising from public policies is expected to result in an exposure draft in the first half of 2007. The AASB proposes to await the outcomes of these projects before making amendments to its own standards.

The Australian Government's financial reporting framework

1.18 The Australian Government publishes two significant ex–post annual financial reports. These are the Final Budget Outcome (FBO) Report and the Consolidated Financial Statements (CFS). The FBO Report must, by law, be publicly released and tabled by the Treasurer by 30 September each year.[15] The CFS is, by law, to be given to the Auditor–General for audit as soon as practicable after preparation but no later than 30 November each year.[16] The FBO Report for 2005–06 was finalised on 29 September 2006; the audited CFS for 2005–06 were signed on 30 November 2006.

1.19 The FBO report is based on the GFS framework whereas the CFS is prepared in accordance with accounting standards.

1.20 In September 2006, the AASB approved the issue of accounting standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*.[17] The Standard has a mandatory operative date for years beginning on or after 1 July 2008, with early adoption permitted. In due course, the implications of the GAAP/GFS harmonisation on Standards may result in a review of certain aspects of the *Conceptual Framework.*[18]

1.21 The more significant requirements in the new standard include:

- the composition of the General Government Sector (GGS)[19] being determined in accordance with the principles and rules in the Australian Bureau of Statistics (ABS) GFS Manual;[20]

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15 *Charter of Budget Honesty Act 1998* Schedule 1, clause 18.

16 *Financial Management and Accountability Act 1997* section 55.

17 AASB 1049 *Financial Reporting of General Government Sectors by Government* is available at <www.aasb.com.au>.

18 *AASB Public Sector Policy Paper*, 24 October, p. 10.

19 The GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by means of taxes and other compulsory transfers. As defined in Appendix A of AASB 1049, non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government.

20 The Manual is published by the Australian Bureau of Statistics. Its full title is *Australian System of Government Finance Statistics: Concepts, Sources and Methods*. It was most recently published in 2005 and may be updated from time to time. It is available at <www.abs.gov.au>.

- the GGS financial report being made available at the same time as the fully-consolidated CFS required by AAS 31 *Financial Reporting by Governments*;
- the GGS financial report including key fiscal indicators[21] determined in a manner consistent with the accounting standards, with a reconciliation note to the indicators measured in accordance with GFS;
- the GGS financial report disclosing a description of each broad function of the GGS as specified in the ABS GFS Manual and the assets, liabilities, income and expenses reliably attributable to those functions; and
- the original budgeted financial statements for the GGS being included, with explanations of major variances between budget and actual amounts.

1.22 The ANAO welcomes the release of AASB 1049 because it should reduce the complexity and potential confusion that arises from the preparation of financial reports on different accounting bases and improve comparability of budget statements with audited reports on the budget outcome. Nevertheless, auditing the GGS statements may present a number of new challenges to auditors, such as auditing the explanations for variances between budget and actual numbers.

1.23 In previous reports, the ANAO indicated that it would be willing to audit GFS financial statements if requested. With the issue of the new standard, it would be preferable if there was a legislative basis for an audit of the new financial statements for the General Government Sector required by AASB 1049.

Implementation of Australian Equivalents to International Financial Reporting Standards (AEIFRS) by Australian Government entities

1.24 In July 2002, the Financial Reporting Council (FRC) announced Australia would be adopting International Accounting Standards from 1 January 2005. The financial statements of Australian Government reporting

[21] The key fiscal indicators required by the proposed standard are net worth, net operating balance, net lending/borrowing, total other economic flows and the cash surplus/deficit.

entities for 2005–06 were the first full–year financial statements were prepared under AEIFRS.

1.25 Previous ANAO reports[22] have outlined the requirements for reporting under the new standards for the first time (as set out in Accounting Standard AASB 1 *First–time Adoption of Australian Equivalents to International Financial Reporting Standards*) and the steps taken within the Australian Government public sector to assist the transition.

1.26 AASB 1 requires each reporting entity to make an explicit and unreserved statement of compliance with all the requirements of AEIFRS that are material to the entity's financial statements.[23] When an entity is a first–time adopter in these terms, it is able to avail itself of the significant exemptions that are permitted by AASB 1 to full retrospectivity in the application of new accounting policies.[24]

1.27 An amendment to AASB 1[25] enables the transitional exemptions to full retrospectivity in AASB 1 to be adopted by a not–for–profit public sector entity that is unable to fully comply with AEIFRS as long as any non–compliance by the entity is due to information deficiencies that also caused the entity to state non–compliance with previous Generally Accepted Accounting Principles (GAAP).

1.28 All material Australian Government entities have indicated unreserved compliance with AEIFRS, other than the Department of Defence (Defence). Defence has indicated exceptions within the extent permitted by AASB 1.[26]

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22 The most recent of these is ANAO Audit Report No.48 *2005–2006 Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006*.

23 Paragraph 3 in AASB 1 states: 'An entity's first Australian-equivalents-to-IFRSs financial report is the first annual financial report in that the entity adopts Australian equivalents to IFRSs, by an explicit and unreserved statement in that financial report of compliance with Australian equivalents to IFRSs'.

24 AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires a new accounting policy to be applied as if it had always applied, unless it is impracticable to do so (paragraphs 19 to 27). AASB 1, in contrast, permits specific limitations to full retrospectivity. For example, AASB 1 effectively permits specialist military equipment to continue to be carried on a deemed cost basis despite having a substantial portion of the amount based in valuations done up to 2002. If this exemption were not available, specialist military equipment would have had to have been re-measured to actual depreciated historical cost or current fair value.

25 AASB 1 paragraph Aus 3.2 refers.

26 As contained in note 1.5 (a) p. 368, of the financial statements section of the Department of Defence's 2005–06 Annual Report, their financial report complies with AEIFRS except for AASB 102 *Inventories* in relation to General Stores and AASB 116 *Property, Plant and Equipment* in relation to Repairable Items.

1.29 The aggregate impact at the Whole-of-Government level of the adoption of the new standards is reported in the 2005–06 CFS of the Australian Government.[27] [28] In summary:

- the AEIFRS measurement of the Consolidated net result (surplus) attributable to the Government (i.e. after minority interests) for 2004–05 was $0.5 billion higher than under previous GAAP, up from $5.0 billion to $5.5 billion (this difference does not include the effects of the application of the AEIFRS standards for financial instruments, for which the transition date was 1 July 2005);[29]
- the AEIFRS measurement of Consolidated net liabilities attributable to the Government as at 30 June 2005 was $15.8 billion higher than under previous GAAP, up from $16.9 billion to $32.8 billion (again excluding financial instruments); and
- the AEIFRS balance sheet measurement at 1 July 2005 of financial instruments measured under previous GAAP as at 30 June 2005 was a net $4.2 billion lower (thereby further increasing net liabilities).

An analysis of the main reasons for the differences follows. The most significant balance sheet differences relate to the application of the new requirements for accounting for defined benefit superannuation schemes and for financial instruments. The differences on the income statement for 2004–05 are relatively minor, in part because superannuation effects are not recorded in income but taken directly to net assets, and also because, for 2004–05, financial instruments continued to be reported under previous GAAP.

Superannuation benefits

1.30 Under AASB 119 *Employee Benefits*, the obligations to pay benefits are measured at their present value, using the market yield on government bonds at the reporting date which matches the expected timings of benefit payments.

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[27] For most Australian Government reporting entities, the date for the adoption of the AEIFRS was 1 July 2004 except for the accounting of financial instruments which was 1 July 2005. A comparison of financial statement line items under AEIFRS and the previous accounting standards is a required disclosure for the financial statements of all reporting entities. The comparisons required are of balance sheet items at both 30 June 2004 and 30 June 2005, and income and cash flow statements for the year 2004–05. For financial instruments, the only comparison is in relation to balance sheet aspects as at 1 July 2005.

[28] The Consolidated Financial Statements for the year ended 30 June 2006 were signed on 30 November 2006.

[29] The applicable accounting standards are AASB 132 *Financial instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

At 30 June 2005, these liabilities measured under AEIFRS were $106 billion,[30] some $15 billion above their previous GAAP measurement, largely reflecting the difference in the discount rates employed (5.2 per cent compared to a steady 6 per cent under previous GAAP). At 30 June 2006, the discount rate approached 6 per cent again, largely reversing this difference.[31] The actuarial gains and losses in these movements do not affect the Government's financial result since the Government has taken the option under AEIFRS of directly adjusting equity.

1.31 The sensitivity of the measurement of large unfunded public sector superannuation liabilities to movements in the yield on government bonds has been raised by the Department of Finance and Administration with the AASB.

1.32 AASB 119 also requires that any excess of the fair value of scheme assets over liabilities is recognised. At 30 June 2005, this amounted to $1.2 billion, largely in respect of the Telstra and Australia Post superannuation schemes.

Financial instruments

1.33 Under AASB 139 *Financial Instruments: Recognition and Measurement,* virtually all financial instruments captured by the standard must be measured at their fair value when first recognised on the balance sheet. Depending on the circumstances, subsequent measurement either remains at fair value or is at amortised cost (viz. the original fair value amount plus accrued interest using the interest rate which gives a straight-line yield to maturity).

1.34 The Government chose 1 July 2005 as the transition date for the application of AASB 139. At that date, a reduction of $4.2 billion in net assets was made to the Government's balance sheet (decreases of amounts totalling some $6.2 billion, offset by increases totalling $2.0 billion). In accordance with AASB 1, the adjustments were made directly to net assets and not against 2005–06 income.

1.35 The main adjustments are described below.

1.36 The Government borrows money by issuing securities to the market. The carrying amount of the liability for certain Government securities

[30] The Future Fund was established in March 2006 for the purposes of accumulating financial assets sufficient to offset the government's unfunded superannuation liability by 2020.

[31] A smaller part of the difference was due to a change in the application of the method of allocating future benefits to each period of service.

increased by $3.2 billion as a result of the Government choosing to measure at fair value through profit and loss, in place of the previous amortised cost basis.

1.37 Certain Government entities are permitted to use derivatives to manage financial risks. The re-measurement of derivatives to fair value as at 1 July 2005 resulted in an increase in net assets of some $800 million.

1.38 The Government, through various programmes, provides loans on concessional terms i.e. interest free or at below market interest rates. The most significant of these concessional loans are to:

- students under the Higher Education Loan Programme and the Student Financial Supplement Scheme;
- State and Territory governments, primarily under the Commonwealth-State Housing Agreements, and
- indigenous Australian individuals and businesses.

1.39 Under previous GAAP, these assets were initially recognised at cost or amortised cost. As a result of applying AASB 139, the net carrying amounts of affected loans as at 1 July 2005 was reduced by $2.5 billion, from $14.8 billion to $12.3 billion.

1.40 The Government does not consolidate investments in entities it does not control or significantly influence. These investments include the Government's interest in the Australian National University, the carrying amount for which increased by $728 million to $1.4 billion as at 1 July 2005, reflecting a change in measurement basis from deemed cost to the carrying amount of net assets in the University's accounts.

1.41 The primary on-going effects of the application of AASB 139 from 1 July 2005 onwards are that (i) new concessional loans will result in an expense being recognised immediately to reflect the market value of the benefit received by the borrower and (ii) greater volatility in the overall net result from changes in fair value being taken to the income statement. An amendment to AASB 139 (effective in 2006–07) restricts access to the option of taking changes in fair value directly to income and may reduce the volatility in the net result.

Provision for makegood

1.42 AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies to the treatment of liabilities associated with the retirement or disposal of longlived assets. In particular, a liability must be recognised when a present obligation to make good is first incurred, often at the time of acquisition of the related asset. (These liabilities were outside the scope of previous GAAP).

1.43 Provisions for makegood totalling $983 million were recognised as at 30 June 2005 under AEIFRSs. The largest components were provisions recognised in relation to Defence assets of $526 million and assets relating to the Australian Antarctic Territories of $146 million.

Other AEIFRS impacts

1.44 Other differences to the Government's balance sheet as at 30 June 2005 as a result of the introduction of AEIFRS are included below:

- Defence inventories[32] were some $197 million lower due to the introduction of measurement at the lower of cost and current replacement cost;
- Goodwill and fair value adjustments arising in the acquisition of foreign controlled entities are now affected by exchange rate movements, reducing other intangibles by $446 million;
- The Government's choice under AEIFRSs of expensing all borrowing costs reduced infrastructure, plant and equipment by $401 million;
- Provisions were $201 million lower ($152 million relating specifically to Comcare), due to the removal of risk margins; and
- a number of portfolio departments reported significant changes in the carrying amounts for the Government's investments in other entities within the portfolios, due to their being measured on a current fair value basis rather than on a deemed cost basis, which was taken on the investee's 30 June 1997 net asset value.

Other AEIFRS Issues

1.45 During the course of the preparation of the 2005–06 financial statements, a number of issues were identified in regard to the AEIFRS suite of accounting standards specific to the not–for–profit public sector. In addition to the previously mentioned measurement of the unfunded superannuation liability, the Department of Finance and Administration has raised a number of

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[32] More details in regard to the AEIFRS impacts for Defence, are contained in Chapter 5, Defence Portfolio section, of this report.

issues with the AASB and recommended that appropriate action be taken to address these issues. Some of the major accounting issues relate to the determination of fair value for public policy loans and fair value through profit and loss for financial instruments; treatment of heritage and cultural assets; consistency of principles particularly with regard to multi-year grants and the make good component and fair value in relation to provisions and contingencies.

Reporting compliance with the financial management framework

1.46 Audit Report No.48 2005–2006[33] noted a number of developments in relation to compliance with financial management legislation, including that:

- a number of recent ANAO Audit Reports[34] had reported shortfalls by Australian Government entities in the level of compliance with financial management legislation;
- a number of the issues raised in those Reports involved contraventions of section 48(1) of the FMA Act which provides that 'A Chief Executive must ensure that accounts and records of the Agency are kept as required by the Finance Minister's Orders';[35]
- the Joint Committee of Public Accounts and Audit, in its Annual Report for 2004–05, identified compliance with financial management legislation as an inquiry theme. The Committee placed 'all public entities on notice that this is a matter that it will continue to investigate'. The Committee was seeking to improve compliance with financial management legislation by Australian Government entities; and

[33] Audit Report No.48 *2005–2006 Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006.*

[34] The Audit Reports include:

- No.34 *2003—2004 Agency Management of Special Accounts;*
- No.15 *2004–2005 Financial Management of Special Appropriations;*
- No.22 *2004–2005 Investment of Public Funds;* and
- No.28 *2005–2006 Management of Net Appropriation Agreements*.

[35] The relevant Order (*Financial Management and Accountability Orders 2005, Order 2.3*) requires that, for the purposes of section 48, a Chief Executive must ensure that the Agency's accounts and records properly record and explain the Agency's transactions and financial position, and, without limiting the generality of this obligation, must ensure that the accounts and records are kept in a way that … (e) ensures that moneys are only expended for the purpose for which they are appropriated; and (f) ensures the limit on any appropriation is not exceeded.

- Finance had taken steps to help reduce the incidence of legislative breaches. Finance Circular 2005/06 '*The financial framework—accountability for compliance and dealing with breaches*' sets out the responsibilities of entities and, in particular, of the agency Chief Executive and the audit committee in relation to compliance with applicable laws and regulations.

1.47 The ANAO Report No.48 2005–06 also notes that Finance was planning to require, from 2006–07, each Chief Executive to certify the financial management and financial sustainability of the agency to their Minister and the Minister for Finance and Administration.

1.48 In October 2006, Finance released Finance Circular No. 2006/08 'Certificate of Compliance—FMA Act Agencies' dealing with this certification. The *Certificate of Compliance* requires the Chief Executive to certify, having regard to advice provided by the entity's internal control mechanisms and audit committee, that the entity:

- has complied with the provisions of the FMA Act, the *Financial Management and Accountability Regulations 1997* and the *Financial Management and Accountability Orders 2005*;
- has exercised the powers delegated by the Finance Minister appropriately;
- has complied with Australian Government requirements on foreign exchange risk management;
- has complied with legal and financial requirements for the management of special accounts;
- has complied with the financial management policies of the Commonwealth;
- is operating within the agreed resources for the current financial year; and
- has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

1.49 The Finance Circular provides guidance to assist Chief Executives in complying with the new reporting requirements.

1.50 While certification for 2006–07 will not be required until 15 October 2007, it is important that entities have processes in place to enable them to periodically attest to compliance with a range of legislative, policy and procedural requirements, and advise of any departures. The ease with which entities are able to respond to this request depends on their existing management information systems and quality assurance processes. It was evident during the 2005–06 audit process that a number of agencies have started to give consideration to designing and implementing processes for the Certificate of Compliance.

1.51 As foreshadowed in Audit Report No 48, the ANAO has increased its focus on legislative compliance as a part of its financial statement audit coverage. Work programmes focussing on key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public monies were implemented in the 2005–06 financial statement audits to obtain reasonable assurance about an agency's compliance with these targeted legislative aspects of the financial management framework. This work does not replace the need for each entity to conduct its own quality assurance process over legislative compliance.

1.52 In the context of its compliance focus, the ANAO is also undertaking a performance audit in 2006–07 to review the implementation of the Federal Register of Legislative Instruments as required under the *Legislative Instruments Act 2003*.[36] The audit will not commence until early in 2007.

1.53 In addition, a potential performance audit is planned for the latter part of 2006–07 on *Financial Management of Administered Annual Appropriations.* The audit would assess agencies' management of, and accountability for, amounts appropriated by Parliament for administered expenses.[37]

Developments in Australian auditing standards

1.54 The Auditor–General is required by Section 24 of the *Auditor–General Act 1997* to set auditing standards for persons performing ANAO audits. These standards were revised in September 2006 and have been published on the Federal Register of Legislative Instruments.[38]

[36] *ANAO Planned Audit Work Programme 2006–2007* (July 2006).

[37] Ibid.

[38] The Federal Register of Legislative Instruments (FRLI) is located at <www.comlaw.gov.au>.

1.55 The ANAO standards incorporate, by reference, the current versions of the standards set by the AUASB for the auditing of financial statements.[39] As a result, ANAO audits of financial statements are conducted under the same auditing standards applying in other sectors of the Australian economy.[40] Further, ANAO standards automatically adopt changes in the AUASB standards. The ANAO standards incorporate the enhanced auditing standards which were given the force of law under the *Corporations Act 2001* from 1 July 2006.

1.56 The ANAO standards also incorporate, by specific mention, standards for performance auditing AUS 806 *Performance Auditing* (issued July 2002); and AUS 808 *Planning Performance Audits* (issued October 1995).[41] The AUASB has identified these standards as a high priority for review in 2006–07. The ANAO will contribute to the review of these standards through the AUASB's due process.

1.57 Other priorities for the AUASB in 2006–07 include a project on compliance auditing and continuing work to reflect changes in International Standards on Auditing (ISAs), particularly in improving the clarity of selected ISAs.[42]

1.58 Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have lead to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. In turn, these additional requirements have had a direct impact on the level of resources devoted to audits undertaken in accordance with Australian Auditing Standards.

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[39] The AUASB Standards made for the purposes of section 336 of the *Corporations Act 2001* are also published on FRLI.

[40] The ANAO standards incorporate AUASB and other specified standards to the extent that they are not inconsistent with the requirements of the Auditor-General Act.

[41] These standards, along with AUS 804 *The Audit of Prospective Financial Information* (issued July 2002) and AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures* (issued July 2002) were issued by the AUASB's predecessor and are therefore not AUASB standards.

[42] International Standards on Auditing (ISAs) are made by the International Auditing and Assurance Standards Board (IAASB) of IFAC. The strategic direction of the AUASB includes the development of Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use as a base, as appropriate, the ISAs;
- make such amendments to ISAs as are necessary to conform with the Australian regulatory environment and statutory requirements; and
- incorporate additional requirements based on standards in other national jurisdictions, where appropriate and considered to be in the public interest.

Conclusion

1.59 The new and expanded requirements arising from these accounting and auditing developments have a significant impact on the nature and cost of financial reporting and auditing, and will continue to do so into the foreseeable future.

1.60 While the implementation of AEIFRS during 2005–06 has been well managed by most agencies, there are a number of important issues for entities in the interpretation and implementation of the new standards under AEIFRS. It will be important that the AASB develops a comprehensive policy paper on public sector accounting issues, including whether to retain the government specific accounting standards or to base requirements in topic-based standards. The AASB's work programme covering public sector specific concerns is very important.

1.61 The outcomes of projects being undertaken internationally by the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) will also be influential to the AASB. Important issues include revenue recognition, liabilities arising from social policy obligations and budget reporting.[43] Another key issue is the accounting for the administered activities of government departments.

1.62 The ANAO is continuing to work with entities and Finance on approaches to the above issues.

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[43] The AASB has provided comments on an IPSASB exposure draft for a standard on *Revenue from Non-exchange Transactions (including Taxes and Transfers)*. The AASB will continue to monitor relevant IASB projects, including one on liability and revenue recognition. An IPSASB project on liabilities arising from public policies is expected to result in an exposure draft in the first half of 2007. The AASB proposes to await the outcomes of these projects before making amendments to its own standards.

2. Results of the Audit of the Consolidated Financial Statements of the Australian Government

This chapter details the results of the recent audit of the Consolidated Financial Statements of the Australian Government.

Background

2.1 The Consolidated Financial Statements (CFS) of the Australian Government contribute to transparent and accountable government. The CFS and the associated financial analysis are designed to allow readers to assess the annual financial performance and position of the Australian Government.

2.2 The reported 2005–06 net result attributable to the Australian Government was a surplus of $15.5 billion (2004–05: $5.5 billion) and a reported net liability of $10.3 billion (2004–05: $32.8 billion).[44] These figures show the financial impact of government policies for the year and the associated movement in net asset/liability as at 30 June.

2.3 The ANAO first audited the CFS in 1996–97, so this year is the tenth year the ANAO has expressed an opinion on the CFS, and provided assurance to users of the CFS on the information presented.

2.4 The audit processes on the financial statements of the individual entities that are consolidated into the CFS, as well as the audit of the CFS itself, also provide insight and assurance over the base data that is used in the preparation of the Final Budget Outcome and some Australian Bureau of Statistics reports prepared under the Government Finance Statistics and the International Monetary Fund frameworks. Reports under these frameworks are not audited by the ANAO, but are subject to other quality assurance processes by Finance over the data collation, interpretation issues and presentation.

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[44] The reported net result attributable to the Australian Government and the net liability (and comparatives) need to be read in the context of the audit qualifications described in paragraphs 2.10 to 2.21.

Audit Report

2.5 The CFS were signed by the Minister for Finance and Administration on 30 November 2006 and the audit report was issued on 30 November 2006.

2.6 Significant progress has been made in 2005–06 in resolving issues which resulted in the qualification of the audit opinion of the CFS in prior years.

2.7 There has been a long standing audit qualification of the CFS concerning the appropriate point at which to recognise taxation revenue. A change in accounting policy to recognise taxation revenue, introduced in the context of the 2006–07 Budget and now adopted in the 2005–06 CFS, has cleared the way to remove this qualification. The current approach of adopting the economic transaction method to revenue recognition, when the revenue can be reliably measured on this basis, accords with the accounting standards. The research and analysis to allow Ministers to reach this position was undertaken by an interdepartmental committee consisting of the Department of Finance and Administration, the Department of the Treasury (Treasury), the Australian Taxation Office, the Australian Bureau of Statistics and the ANAO.

2.8 The severity of the qualification on the financial statements of the Department of Defence (Defence) has also been significantly reduced this year with positive flow-on effects for the 2005–06 CFS.

2.9 There were, however, two significant matters that again resulted in the issuance of a qualified audit opinion on the CFS. As in prior years, these matters related to departures from accounting standards in relation to the accounting treatment of the Goods and Services Tax (GST) and the unavoidable impact of qualifications carried forward from the 2005–06 audit opinion on the financial statements of the Defence.

Qualifications

2.10 In forming the audit opinion the ANAO assessed, amongst other things, whether the accounting policies adopted in the preparation of the CFS were consistent with the Australian Accounting Standards. In relation to the financial reporting of taxation revenue, there was a departure from the accounting standards that understated 2005–06 taxation revenue by $38.9 billion, related expenses by $37.9 billion, and the Net Result (Surplus) by $1.0 billion.

2.11 The ANAO also assessed if the financial information consolidated within the CFS could be relied upon to represent faithfully the transactions and events that have occurred. In this context, a limitation of scope concerning uncertainty surrounding two material account balances in Defence's financial statements was carried forward as a qualification to the audit opinion on the CFS.

2.12 The departures from the accounting standards and the scope limitation over Defence financial information together had a material impact on the Consolidated Income Statement, the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows, together with the associated schedules and notes to the financial statements. These impacts are discussed further in paragraph 2.20 of this Report.

Goods and Services Tax and Related Grants Expense

2.13 As in the previous year, the CFS for 2005–06 have been prepared without recognising the GST as a revenue of the Australian Government, nor the associated payments to the States and Territories, as expenses.

2.14 The Australian Government's reason for not recognising GST and the associated grant payments to the States and Territories is based on the view that the GST is a State tax collected by the Australian Government in an agency capacity, in accordance with the intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

2.15 In substance, however, and from an accounting perspective, the GST is a revenue of the Australian Government. It is imposed under Australian Government legislation and the Australian Government controls the revenue raised. The Government's decision to enter into an agreement to pass the GST revenue collected to the States and Territories is a separate transaction conducted to meet its particular objectives.

2.16 The Australian Government's control of the GST revenue is also illustrated by the fact that the distribution of GST revenue is based on population share adjusted by a relativity factor embodying per capita financial needs. The relativity factor is determined by the Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution could only ever coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, as there is no direct connection between the taxation revenue arising in, and the taxation revenue returned to, a particular State or Territory.

2.17 The financial effects of not recognising the GST as revenue of the Australian Government are to understate the net result for the financial period and to overstate net liabilities as at the financial year end. The financial effects of not recognising the GST, in accordance with Australian Accounting Standards, are as follows:

- in the Consolidated Income Statement for the 2005–06 year are an understatement of Revenues by $38.9 billion (2004–05: $35.8 billion), Expenses by $37.9 billion (2004–05: $35.5 billion) and hence the Net Result (Surplus) by $1.0 billion (2004–05: $0.3 billion);
- in the Consolidated Balance Sheet as at 30 June 2006 are an understatement of Assets by $8.3 billion (2004–05: $7.3 billion) and Liabilities by $0.5 billion (2004–05: $0.4 billion), and hence an overstatement of Net Liabilities by $7.9 billion (2004–05: $6.9 billion); and
- in the Consolidated Statement of Cash Flows for the 2005–06 year are an understatement of both Total Operating Cash Inflows and Total Operating Cash Outflows of $31.0 billion (2004–05: $29.1 billion) (a difference which takes account of GST-related cash flows within the Australian Government).

2.18 This treatment of GST in the CFS is also contrary to the treatment adopted in the financial statements of the administering agencies. The ATO has reported the GST as an Australian Government tax and the associated payments to the States and Territories are recognised by Treasury as grant expenses. In addition, the Australian Bureau of Statistics treats GST as a tax of the Australian Government for statistical purposes.

2.19 For the reasons set out above, the GST should be recognised as revenue of the Australian Government in the CFS. The CFS audit opinion includes a qualification in relation to the understatement of taxation revenue and the associated grants expense caused by the omission of GST from the CFS.

Department of Defence Qualifications

2.20 The 2005–06 Defence financial statements are true and fair, except for uncertainties relating to the Inventories and Repairable Item balances (as part of the Specialist Military Equipment balance) and the flow-on effects to the income statement. Notwithstanding the significant reduction in uncertainty over some Defence balances in 2005–06, there remains significant uncertainty in relation to the two material line items within the Defence financial statements. In turn, this uncertainty affects the accuracy of the equivalent items in the CFS, as well as the reported Net Result and Net Assets of the Australian Government together with the associated schedules and notes.

2.21 While still resulting in residual qualifications on Inventories - General and Repairable Items (a component of Specialist Military Equipment), the heavy investment by Defence in financial management remediation, in consultation and with considerable support from the ANAO, has delivered a much better result this year when compared to last year. Finance also had a key role in a whole of government accounting context. These Defence related qualifications are explained in further detail in both Chapter Three and the Defence portfolio section of Chapter Five of this report.

Accounting Issues

Executive Remuneration

2.22 The CFS do not include disclosure of the remuneration of Ministers or key management personnel of Australian Government entities. The ANAO takes the view that, whilst the accounting standards do not currently mandate the inclusion of this information, its inclusion within the CFS would generally be seen as a positive contribution to enhanced accountability and consistent with disclosure in the corporate sector. The ANAO has suggested there would be benefit in exploring whether some level of disclosure is feasible in 2006–07 and whether this could be expanded over time.

3. Summary Results of the Audits of Financial Statements

This chapter provides a summary of audit reports with qualifications or an emphasis of matter, and audit reports with 'other statutory matters' issued by the ANAO during the 2005–06 financial year.

Summary of Audit Reports Issued

3.1 The Auditor-General is required by law to provide to the relevant Minister an audit report on the annual financial statements of each Australian government reporting entity. The audit opinion included in the audit report may be qualified. Audit reports may also include an emphasis of matter without qualifying the audit opinion. The various types of audit opinions and emphasis of matter, which may appear in an audit report, are explained in this chapter. In addition, audit reports may also contain 'other statutory matters'. A summary of the qualifications, emphasis of matter and 'other statutory matters' included in audit reports issued by the ANAO for the past two years is provided in this chapter.

Table 3.1

Summary of audit conclusions in audit reports issued

Financial Statement Audit Reports	2005–06	2004–05
Qualified (includes CFS audit report) ~	2	4
Emphasis of matter	6	3
Other statutory matters	3	18
Unqualified audit reports	214	213
Total Issued	**225**	**238**
Signed financial statements not presented for audit at the time of this report	13	14
Total reports	**238**	**252**

~ The 2004–05 and 2005–06 audit reports of the Department of Defence also contained an 'other statutory matter'.

Unqualified Audit Reports

3.2 An unqualified audit report is provided when the financial statements, in all material respects, give a true and fair view of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the FMOs, so as to present a view which is consistent with the entity's financial position, its financial performance, and its cash flows.

Qualified Audit Reports

3.3 Qualified audit reports are issued when the financial statements do not present a true and fair view of the entity's financial position, nor of the results of its operations and its cashflows, thereby reducing the readers' ability to analyse, interpret and compare financial statements.

3.4 The types of qualified audit opinions and the basis for issuing these opinions are as follows:

- An except for opinion — is expressed when the auditor concludes that an unqualified opinion is inappropriate because of a disagreement with management; a conflict between applicable financial reporting frameworks; or a scope limitation, the effects or possible effects of which are not of such a magnitude or so pervasive or fundamental, as to require the expression of an adverse opinion or an inability to form an opinion.
- An inability to form an opinion—commonly referred to as a disclaimer, is expressed when a scope limitation exists and sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and the possible effects of the adjustments that might have been required, had the uncertainty been resolved, are of such a magnitude, or so pervasive or fundamental, that the auditor is unable to express an opinion on the financial report taken as a whole.
- An adverse opinion—is expressed when the effects of a disagreement with management or a conflict between applicable financial reporting frameworks is of such a magnitude or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor's opinion, misleading or of little use to the addressee of the report.

Emphasis of matter

3.5 In certain limited circumstances, it will be appropriate for the auditor to draw attention to, or emphasise, a matter that is relevant to the users of the audit report but is not of such a nature that it affects the audit opinion. The circumstances in which an emphasis of matter may be appropriate include:

- when an inherent uncertainty exists and the uncertainty and its potential impacts have been adequately disclosed in the financial statements;
- when information in a document containing the audited financial report is materially inconsistent with that financial report; and
- when it is highly improbable that an entity will continue as a going concern because of an event occurring after reporting date which provides new information that does not relate to conditions existing at reporting date, and there has been adequate disclosure in the financial statements.

Audit Reports containing 'Other Statutory Matters'

3.6 Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs, but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.[45] The Auditor-General may also refer to contraventions of other statutory requirements that he considers significant.

3.7 The 'other statutory matters' section of the audit report allows the Auditor-General to draw to the attention of Parliament significant departures from the financial management framework that affect an entity's financial report.

3.8 Further, the ANAO does not audit all subsidiaries of Australian Government entities for reasons including the impracticability of auditing overseas subsidiaries. There are also some instances where the ANAO issues an audit report on consolidated financial statements where an immaterial subsidiary's accounts have not yet been finalised and audited. In these cases,

[45] Section 48 of the FMA Act, together with Order 2.3 of the FMOs, requires that the accounts and records of each entity properly record and explain the entity's transactions and financial position.

the audit report on the entity's consolidated financial statements will contain an additional statutory disclosure stating this fact in accordance with Schedule 1, Part 2 Section 6(2) & (3) of the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Entity Audit Reports Containing a Qualification

Department of Defence

3.9 The audit opinion on the financial statements of Defence was qualified on an 'except for' basis due to uncertainties in relation to the balances of Inventories and Specialist Military Equipment and the consequential effect of these uncertainties on the Income Statement, comparative information for 2004–05 and the Statement of Changes in Equity. The audit concerns in relation to these matters are detailed below.

Inventories

3.10 Errors identified through stocktakes, business process issues and system limitations resulted in there being uncertainty in relation to the reported balance of *Inventories-General* of $1.8 billion (2004–05 - $1.7 billion). *Inventories-General* is a component of the reported balance of *Inventories* totalling $4.0 billion (2004–05 - $3.6 billion). In addition, there were 'not-in-catalogue' inventories which were not reported in the *Inventories-General* component of the balance, also affecting the completeness of the inventory accounts and records. Consequently, not all necessary information could be obtained to be satisfied as to the balance of *Inventories-General*. This constituted a limitation on the scope of the audit.

Specialist military equipment

3.11 Errors identified through stocktakes, business process issues and system limitations resulted in there being uncertainty in relation to the reported balance of *Repairable Items* of $2.2 billion (2004–05 - $2.7 billion). *Repairable Items* is a component of the reported balance of *Specialist Military Equipment*. In addition, uncertainty existed in relation to the completeness of the recorded asset balance for *Repairable Items* in part due to the cumulative effect of the methods used for setting asset recognition thresholds over a number of years. Similarly, there were 'not-in-catalogue' *Repairable Items* which were not reported in the *Repairable Items* component of the balance, also affecting the completeness of the asset accounts and records. Consequently, not all necessary information could be obtained to be satisfied as to the balance of *Repairable Items*. This constituted a limitation on the scope of the audit.

3.12 In addition, there were uncertainties flowing from the contribution of *Inventories–General* and the *Repairable Items* component of *Specialist Military Equipment* to Total Assets and Net Assets.

Income Statement

3.13 The uncertainties relating to *Inventories* and *Specialist Military Equipment* referred to above also created uncertainties in a number of items reported in the 2005–06 Income Statement, being assets now recognised income; suppliers expense; depreciation and amortisation expense; and write down and impairment of assets expense and their associated notes, including the *Reporting of outcomes* note. In addition, there were uncertainties flowing from the contribution of these items to Total Income, Total Expenses and the Net Deficit Attributable to the Australian Government. Due to the abovementioned deficiencies in the department's accounts and records, there was insufficient appropriate audit evidence to support these items and their contribution to Income Statement totals. This constituted a limitation in the scope of the audit.

Comparative information for 2004–05

3.14 The program to remediate Defence's financial statements has had, as its primary focus, reporting on the 2005–06 financial year. However this remediation work has also identified certain errors in respect of 2004–05, providing the basis for adjustments to the comparative information for 2004–05. Nevertheless, due to deficiencies in controls and accounting records at that time, there remained uncertainty in relation to a range of financial statement items, namely the 2004–05 comparative information for *Inventory-General* and *Repairable Items* as a component of *Specialist Military Equipment* in the Balance Sheet; assets now recognised, suppliers, depreciation and amortisation, and writedown and impairment of assets in the Income Statement; and relevant financial statement aggregate totals. Due to the abovementioned deficiencies in the department's accounts and records, there was insufficient appropriate audit evidence to support these items and their contribution to Income Statement totals. This constituted a limitation in the scope of the audit.

Statement of Changes in Equity

3.15 The abovementioned uncertainties also affected the reliability of amounts reported for Retained Surpluses and Total Equity in the Statement of

Changes in Equity, as a result of the adjustments that might have been necessary for both 2005–06 and comparative years, had the limitations in scope, which are significant, not existed.

Entity Audit Reports containing an Emphasis of Matter

Orchestral Companies

3.16 A review[46] by James Strong of the Australian Broadcasting Corporation's orchestral network resulted in the Australian Government accepting a recommendation that the orchestral companies be divested from the parent entity, and become separate public companies limited by guarantee. Both the Australian and State Governments agreed to provide funding to cover the costs of this transition, subject to compliance by the companies with certain conditions. At the time of the audits, these conditions had not been met by the orchestral companies and the funding agreement covering the Australian Government contribution for the years 2007 to 2009 was not formalised due to the uncertainty about each company's structure and operations post the divestment. This resulted in this matter being emphasised in the audit opinion for all orchestral companies.

3.17 The companies involved are the Adelaide Symphony Orchestra Pty Ltd, Melbourne Symphony Orchestra Pty Ltd, Sydney Symphony Orchestra Holdings Pty Ltd, Tasmanian Symphony Orchestra Pty Ltd, the Queensland Orchestra Pty Ltd and West Australian Symphony Orchestra Holdings Pty Ltd.

3.18 The financial report of each company for the year ended 31 December 2005 disclosed a significant uncertainty of future funding and the impact on the orchestras' operations if funding did not eventuate.

Entity Audit Reports containing Additional Statutory Disclosure

Department of Veterans' Affairs

3.19 The Department of Veterans' Affairs (DVA) has standing agreements with the United Kingdom, New Zealand, South Africa, Canada, Hong Kong and Malaysia to provide certain services related to the payments of pensions,

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46 *A New Era – Orchestra's Review Report 2005*, James Strong.

pharmaceutical, and health treatment and transport costs to veterans of these countries who are resident in Australia. The only reciprocal arrangement is with New Zealand for payment of treatment costs for accepted disabilities to Australian Veterans resident in New Zealand.

3.20 During the 2005–06 financial year, legal advice was obtained by DVA which stated that services provided for British pensioners and other Dominion Veterans are not covered by the appropriation provided under Section 199 of the *Veterans' Entitlements Act 1986* (VEA) as British, Commonwealth and Allied Veterans did not meet the definition of 'veteran' for the purposes of the VEA.

3.21 The ANAO concluded in its audit report that payments to these overseas veterans did not meet the purposes of the special appropriation. As a result, these payments represented a contravention of section 83 of the Constitution, and section 48 of the FMA Act.

Department of Transport and Regional Services

3.22 The 2004–05 financial statements of the Department of Transport and Regional Services (DoTARS) recorded cash payments of $249.9 million against the *Roads to Recovery Act 2000* (the Act) special appropriation. During 2005–06, it was determined that, of this total, $1.8 million in grants were not eligible payments under the Act. However, there was a valid alternative appropriation available under the annual Appropriation Acts (Nos 1 and 3) of 2004–05 to support the payments. Therefore, the payments had been recorded against an incorrect appropriation source in 2004–05.

3.23 The ANAO concluded in its 2005–06 audit report that this mis-recording by DoTARS represented a breach of section 48 of the FMA Act in relation to the 2004–05 year.

Department of Defence

3.24 As a consequence of the matters that resulted in an 'except for' opinion being issued on Defence's financial statements, as outlined in paragraphs 3.9 to 3.15 of this Report, the ANAO concluded that Defence's accounts and records did not properly record and explain the Department's transactions and balances in respect of *Inventories-General* (within *Inventories*) and *Repairable Items* (within *Specialist Military Equipment*). This resulted in a contravention of section 48 of the FMA Act.

4. The Financial Statement Preparation Process

This chapter provides an overview of the major issues and challenges involved in the timely preparation and audit of the financial statements of Australian Government entities.

Introduction

4.1 The Australian Government is divided into three sectors for accounting purposes, namely the general government sector (GGS), public non-financial corporations (PNFCs) and public financial corporations (PFCs).

4.2 The GGS comprises entities whose primary function is to provide public services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, although user charging and other forms of external funding have increased in recent years. All Departments of State, such as the Department of the Treasury, are part of the GGS, along with other agencies and most statutory authorities.

4.3 The primary function of entities in the PNFC sector is to provide goods and services that are mainly market, non-regulatory and non-financial in nature, financed mainly through sales to consumers of these goods and services. PNFCs include Telstra Corporation Limited and the Australian Postal Corporation.

4.4 The PFC sector comprises entities that engage in financial intermediation services or auxiliary financial services and that are able to incur financial liabilities on their own account, including taking deposits, issuing securities or providing insurance services. Entities such as the Reserve Bank of Australia, the Export Finance and Insurance Corporation and Medibank Private form part of the PFC sector.

4.5 In total, there were 186 entities consolidated into the Australian Government's Consolidated Financial Statements (CFS) in 2005–06, comprised of 167 GGS, 10 PNFC and 9 PFC entities.

Material entities

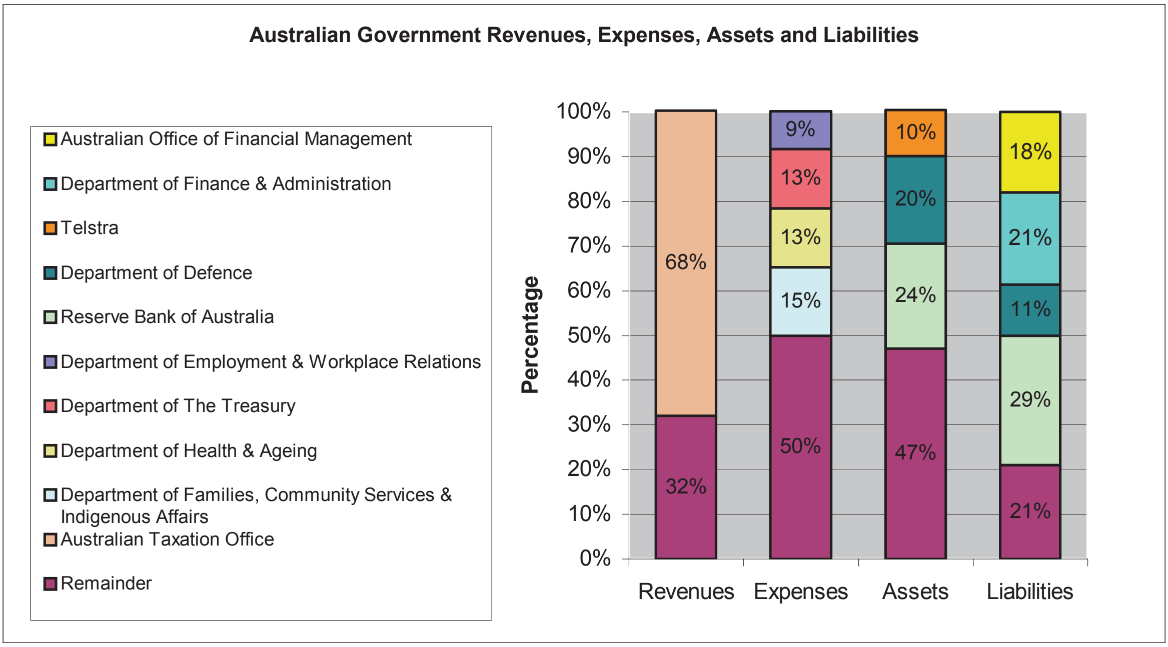
4.6 Sixty-eight of the entities consolidated into the CFS are classified as material entities as they comprise the majority of the revenues, expenses, assets and liabilities of the Australian Government. The remaining entities are considered to be non-material reporting entities. The 68 material entities comprise 99 per cent of key financial statement balances consolidated into the CFS and are subject to significant quality assurance processes by the Department of Finance and Administration (Finance). Material entities are required to produce more detailed financial information than non-material entities for the purposes of providing monthly, end-of-year and estimates reports to Finance.

4.7 The following ten entities represent a significant proportion of the Australian Government financial statement balances:

- Telstra;
- the Department of Defence;
- the Department of Employment and Workplace Relations;
- the Department of Families, Community Services and Indigenous Affairs;
- the Department of Finance and Administration;
- the Department of Health and Ageing;
- the Department of the Treasury;
- the Australian Office of Financial Management;
- the Australian Taxation Office; and
- the Reserve Bank of Australia.

4.8 The contribution of these entities to the Australian Government's revenues, expenses, assets and liabilities (prior to elimination of inter entity transactions) is shown in Figure 4.1.

Figure 4.1



Audit approach

4.9 Each year, under section 57 of the *Financial Management and Accountability Act 1997* (FMA Act) and under clause 3, part 2 of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), the Auditor-General is required to report to the relevant Minister on whether the financial statements of Australian Government entities have been prepared in accordance with the Finance Minister's Orders (FMOs) and whether they give a true and fair view of the matters required by those Orders.

4.10 An audit performed in accordance with the Australian Auditing and Assurance Standards is designed to provide reasonable assurance that the financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.[47]

[47] AUS 202 *Objective and General Principles Governing an Audit of a Financial Report*, paragraph 8.

4.11 In accordance with generally accepted audit practice, the ANAO accepts a minimal level of risk that a material misstatement in the financial statements will not be detected by the audit procedures. This minimal risk is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk. The ANAO performs specific audit procedures to ensure that the risk taken is acceptably low. These procedures include, for example, reviewing the operation of internal controls, undertaking analytical reviews, testing a sample of transactions and account balances and confirming year-end balances with third parties.

4.12 Financial statement audits focus on the major financial reporting risks facing entities and the manner in which the entities seek to manage those risks. The risks will vary according to the size and nature of the organisation, including the nature of its operating environment, the complexity of its information technology systems and the geographical spread of its operations.

4.13 Financial statement audits are performed in a number of phases, primarily planning, interim and final. The ANAO's Audit Report No.48 of 2005–06 reported on the results of the interim phase of the audit of selected material entities. The final phase of the audit of Australian Government entities includes the audit of the CFS. The results from this phase are the focus of this report.

Audit assertions

4.14 Australian Auditing Standard AUS 502 *Audit Evidence* outlines the following assertions that are required to be considered when auditing financial statements:

In relation to classes of transactions and events for the period under audit:

Assertion	Description
Occurrence	Transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been recorded in the proper accounts.

In relation to account balances at period end:

Assertion	Description
Existence	Assets, liabilities, and equity interests exist.
Valuation and allocation	Assets, liabilities, and equity interests are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
Completeness	All assets, liabilities and equity interests that should have been recorded have been recorded.
Rights and obligations	The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

In relation to presentation and disclosure:

Assertion	Description
Occurrence and rights and obligations	Disclosed events, transactions, and other matters have occurred and pertain to the entity.
Completeness	All disclosures that should have been included in the financial report have been included.
Classification and understandability	Financial information is appropriately presented and described, and disclosures are clearly expressed.
Accuracy and valuation	Financial and other information are disclosed fairly and at appropriate amounts.

4.15 As these assertions relate to the recognition, measurement, presentation and disclosure of the various elements of the financial statements, they should also be applied in the preparation of financial statements by entities. The ANAO tests these assertions in respect to classes of transactions, account balances, and presentation and disclosures to assess the risk of material misstatement and to assist in the design and performance of further audit procedures.

4.16 As part of the financial statement preparation process, entity management certifies that they believe that their financial statements give a true and fair view (or are presented fairly, in all material[48] respects) in accordance with the applicable financial reporting framework. In presenting this certification, management is implicitly or explicitly making assertions regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.[49]

Audit adjustments

4.17 During the course of the final phase of the audit of entities' financial statements, the ANAO often identifies errors in financial statement balances, as well as in the presentation and disclosure of the financial statements.

4.18 At a technical level, AUS 306 *Materiality and Audit Adjustments*[50] requires that when the auditor concludes that uncorrected misstatements are immaterial, both individually and in aggregate, to the financial report, a representation from management be obtained. In this representation, management attests that the uncorrected misstatements have been brought to their attention by the auditor, and that management considers the effect of the misstatements to be immaterial both individually and to the financial report as a whole.

4.19 The ANAO's approach in practice is that, when misstatements are identified by the ANAO during the final phase of the audit, the errors are discussed, and the financial impact agreed, with the entity's Chief Finance

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48 Materiality is defined in Accounting Standard AASB 1031 *Materiality* as information which if omitted, misstated or not disclosed has the potential to adversely affect the decision about the allocation of scarce resources made by users of the financial report or the discharge of accountability by management of governing body of the entity.

49 Australian Auditing Standard AUS 502 *Audit Evidence, para 15.*

50 Australian Auditing Standard AUS 306 *Materiality and Audit Adjustments, para 36.*

Officer or senior accounting officer. Where the amount is material, the ANAO expects entities to process the required adjustments to correct the errors. Most Australian Government entities promote better practice by correcting all non-trivial misstatements. Such an approach aids in avoiding the difficulties that can arise in relation to the effect on current year financial statements of uncorrected prior year misstatements.

4.20 Only in extraordinary circumstances are material audit adjustments not processed by entities. Typically, these adjustments relate to areas where the accounting treatment is contentious. Any such situations are dealt with on a case by case basis by senior management of both the entity and the ANAO.

4.21 Audit adjustments can result in both increases and decreases to financial statement balances. As noted in previous reports[51], there has been significant volatility in the size of audit adjustments over the last three financial years. This volatility has continued in 2005–06, with the largest audit adjustments relating to administered income, assets and liabilities, with net adjustments aggregating to over $600 million for each of these categories. In addition, there were net audit adjustments aggregating to over $35 million for each of departmental income and assets in 2005–06.

4.22 At the conclusion of the audit process for each entity with an unqualified audit report, the ANAO was satisfied that, where material adjustments had been identified, these were taken up.

Key challenges for entities

4.23 There were a number of common key challenges faced by Australian Government entities in 2005–06, specifically:

- financial statement preparation and planning; and
- transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS).

4.24 These challenges are discussed below.

[51] The last report stating this was ANAO Audit Report No. 21 2005–2006 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005.*

Financial statement preparation and planning

Financial statement reporting deadlines

4.25 The Australian Government produces two major reports on financial results each year, namely the Final Budget Outcome (FBO) and the Consolidated Financial Statements (CFS).

4.26 The FBO is required by the *Charter of Budget Honesty Act 1998*, and has as its primary focus a report of the Australian Government budget sector and the Australian Government GGS fiscal outcomes for the financial year. The legislative requirement is to publish the FBO within three months of the end of the financial year, however the Government has established a target of producing the report within 45 days. The 2005–06 FBO report was circulated on 29 September 2006.

4.27 The CFS are required to be prepared pursuant to the *Financial Management and Accountability Act 1997* and are presented as a full consolidation of all controlled entities within the GGS, PFC and PNFC sectors. The CFS are required to be passed to the Auditor-General as soon as practicable after they are prepared, for examination and the preparation of an audit report.

4.28 To enable the preparation of the FBO and the CFS, Australian Government entities are required to provide audit-cleared[52] financial information to Finance. In accordance with the *Charter of Budget Honesty Act 1998*, the FBO is produced ahead of the CFS, therefore a timetable has been established by Finance for entities to provide information to enable the FBO's timely preparation.

4.29 As indicated in Audit Report No. 48 of 2005–06, there was a deferral of Finance's delivery targets set under the Budget Estimates and Framework Review (BEFR) for material entity financial statements for the financial year ending 30 June 2006. As a result, in 2005–06, material entities were required to submit their audit cleared financial statements to Finance by 30 July 2006 rather than 20 July 2006. Non-material entities were required to submit their audit cleared financial statements to Finance by 30 August 2006.

[52] Audit cleared means that although the ANAO has not issued an audit report, no matters have come to light that would prevent the Department of Finance and Administration from consolidating financial information for the purpose of preparing the FBO and the CFS.

4.30 The retention of the 30 July deadline for material entities provided entities with more time to achieve the reporting efficiencies required to meet the revised reporting timeline and implement the new reporting framework.

4.31 This situation was supported by the ANAO in light of the specific challenges in the transition to AEIFRS and the resource pressure on entities at this time, particularly having regard to the difficulties encountered by entities in recruiting and retaining suitably qualified accounting staff.

4.32 In 2004–05, ten entities that had planned to obtain clearance by 20 July met their timeline. In 2005–06, the number of entities who successfully met a 20 July clearance target declined to five. The entities that achieved material clearance by 20 July 2006 were:

- Australian Securities and Investments Commission;
- Australian Trade Commission;
- Department of Employment and Workplace Relations;
- National Museum of Australia; and
- Department of the Treasury.

4.33 For the 2005–06 financial year, 80 per cent of material GGS entities and 60 per cent of non-material entities were able to provide audit clearance to Finance in accordance with the requirements established under the BEFR. The achievement of audit clearance by 30 July peaked in its first year of introduction, 2003–04, at 88 per cent, with a decline to 74 per cent in 2004–05.

4.34 While the 2005–06 clearance rate is an improvement on the prior year, it should be noted that it was achieved with the assistance of the decision to delay the advancement of the date by which entities were required to obtain audit clearance. The ANAO understands that a review has been undertaken to determine the financial statement reporting deadlines that will apply to entities for 2006–07 onwards. The ANAO supports this review as, based on the results of the 2005–06 audits, it would be very difficult for most entities to meet an earlier financial reporting deadline.

Preparation and planning processes

4.35 The preparation and publication of annual audited financial statements is a fundamental mechanism by which entities meet their financial accountability and legislative obligations. It is generally accepted that a good indicator of the effectiveness of an entity's financial management processes is the timely finalisation of the entity's financial statements, accompanied by an unqualified audit opinion.

4.36 The ability of material entities to achieve 2005–06 audit clearance by 30 July highlights the importance of improved financial statement preparation processes, focussing on efficiency, effectiveness and timeliness, being implemented by many Australian Government entities.

4.37 Whilst there was an 80 per cent audit clearance rate for material GGS entities (based on the minimum acceptable reporting information required by Finance), only 69 per cent of material entities had supplied full draft financial statements, including all notes and disclosures, by 30 July 2006.

4.38 To assist entities in improving their performance in this area, in April 2006, the ANAO issued a better practice guide (BPG) on the preparation of financial statements.[53] It is a means for the better practices employed in some organisations to be communicated to all Australian Government entities.

4.39 The BPG identified the following aspects that enhance the financial statement preparation processes, and thereby increase the likelihood of meeting the audit clearance deadlines:

- recognise the preparation of the financial statements as an important project, and plan, resource and manage it appropriately;
- ensure good financial reporting practices are in place throughout the year as this is a major contributor to timely and efficient year-end processes;
- work hard to establish and maintain regular and professional communication between all stakeholders, both internal and external;
- make a considered decision on whether implementing a hard or soft close process would facilitate the 30 June close process;
- take a strategic approach to the application of materiality, and ensure all relevant parties are involved in the decision;
- promote an environment of correcting all identified misstatements, regardless of their materiality;
- use timely analytical procedures as a quality assurance tool to improve the accuracy of the financial statements;

[53] ANAO Better Practice Guide *Preparation of Financial Statements by Public Sector Entities*, April 2006.

- identify the sources of various information needed to prepare the financial statements at an early stage in the process and agree on a timetable for the receipt of this information. This will likely include information from external parties in relation to asset valuations, actuarial assessments and services conducted under service level agreements or memoranda of understanding;
- take a structured and consistent approach to the preparation of accounting estimates;
- retain detailed documentation to facilitate the preparation and audit of the financial statements; and
- adopt formal sign-off, review and quality control arrangements as part of the process.

4.40 A large number of entities place a high level of reliance on the AMODEL[54] guidance financial statements produced by Finance, to create their own template, or shell, financial statements. The preparation of the AMODEL is an important undertaking which utilises significant skilled resources from within Finance. The ANAO provides comments on the AMODEL after a quality assurance process has been conducted by Finance. Given the AMODEL development timeline, and the potential for slippages, entities that plan to prepare shell hard close financial statements need to commence anticipatory work on the structure and format of their statements to avoid any timetable issues.

4.41 The Australian Government's position in relation to a number of significant AEIFRS issues, particularly the treatment of concessional loans, was still being finalised in July 2006. As part of this process, Finance Brief 27 *2005–06 Financial Statements and Guidance on Finance Minister's Orders* was issued by Finance in early July 2006, to provide guidance to entities on a number of issues, including the treatment of contingent rentals in leases. These matters impacted on the ability of some entities to finalise their 2005–06 financial statements in a timely manner.

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[54] The AMODEL is a set of model financial statements, incorporating the requirements of the Australian Accounting Standards and the FMOs.

Transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS)

4.42 2005–06 was the first year of reporting under AEIFRS for most Australian Government entities. The major impacts, in financial terms, on the financial statements of Australian Government entities on transition to AEIFRS are detailed in Chapter One.

4.43 In addition, there were a significant number of other AEIFRS issues that entities dealt with in the lead up to, and during, the preparation of their financial statements. The issues that most commonly affected entities, although not necessarily with significant financial implications, in descending order of frequency of impact, were:

- application of the new employee entitlements standard, AASB 119 *Employee Benefits*;
- accounting for makegood under leasing arrangements;
- interpreting and applying the new presentation and disclosure requirements under AEIFRS;
- accounting for financial instruments under AASB 139 *Financial Instruments: Recognition and Measurement*;
- accounting for contingent rentals, or ratchet clauses, in leases on a straight line basis;
- assessing assets for impairment under AASB 136 *Impairment of Assets*;
- reviewing the treatment of grants recognised as revenue;
- applying the revised approach to discount rates to defined benefit superannuation liabilities;
- determining the fair value of administered investments in Australian Government entities; and
- applying the fair value requirements of AASB 139 *Financial Instruments: Recognition and Measurement* to the valuation of concessional loans.

4.44 A number of the above issues had material implications, or potentially impacted, several entities. The application of the new standards therefore required substantial analysis and work by these entities.

4.45 In addition, the presentation and disclosure requirements under AEIFRS required every entity to revise the format of their financial statements.

This included the addition of a new 'Statement of Changes in Equity'. A number of entities did not fully consider the implications of these new requirements until very late in the financial year.

Significant Accounting Issues

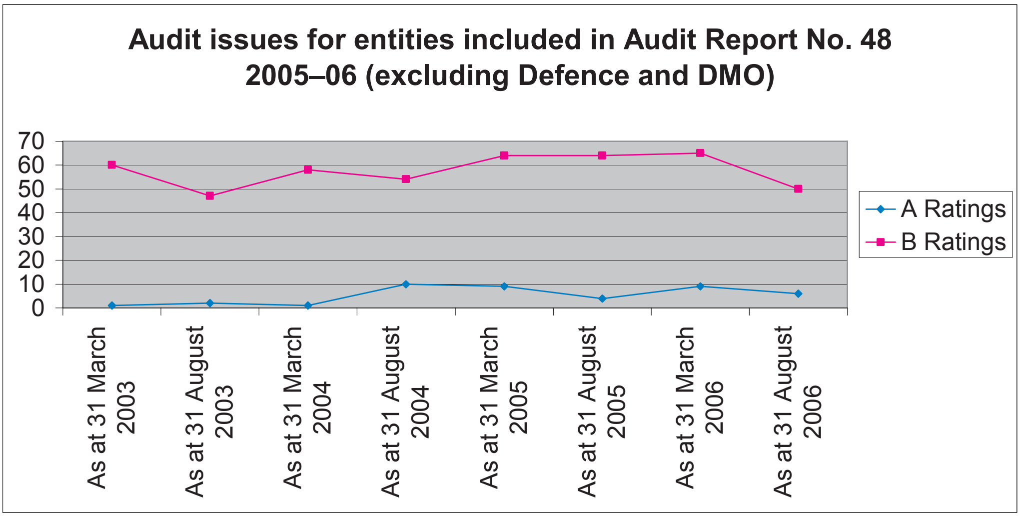
Internal Control Issues

4.46 The ANAO rates audit findings according to the potential risk posed to the entity. The rating structure is as follows:

Category	Description
A	Those matters which pose significant business or financial risk and must be addressed as a matter of urgency. This assessment should take account of both the likelihood and consequences of the risk eventuating.
B	Those matters which pose moderate business or financial risk or matters referred to management in the past, which have not been addressed satisfactorily. These would include matters where the consequences of the issue might be significant, however there is little likelihood of the consequences eventuating.
C	Matters which are procedural in nature or minor administrative failings. These could include minor accounting issues, audit issues, or relatively isolated control breakdowns, which need to be brought to the attention of management.

4.47 A reflection of the movement, since 2003, in the number of category 'A' and 'B' audit issues in respect of those entities included in Audit Report No.48 2005–06, excluding Defence and DMO, is summarised in Figure 4.2. Defence and DMO have been excluded from this analysis as, at the time of finalising Report No.48, the audit findings arising from the interim phase of the audit were still to be finalised.

Figure 4.2



4.48 Appendix 1 provides a summary of audit issues by material entity for 2005–06 and 2004–05. Appendix 1 also contains a summary of the number of interim audit issues in both March 2005 and March 2006, as provided in Audit Report No. 48 2005–06.

4.49 Overall, excluding Defence and DMO, the results of the final audit phase indicate that some 41 per cent of the control issues raised in Audit Report No. 48 2005–06 have been addressed and are therefore considered resolved in this report. A further 17 new issues (excluding Defence and DMO) have been raised with entities during the final phase of the audit. In general, the results, consistent with prior years, demonstrate that internal controls in business and accounting processes require regular monitoring and attention by entities.

4.50 When compared to Report No. 21 2005–06, 18 per cent[55] of material entities reported a reduction in the number of 'A' and 'B' category audit issues and 19 per cent[56] (excluding Defence and DMO) of entities showed a

[55] Department of Employment and Workplace Relations, Department of the Environment and Heritage, Department of Families, Community Services and Indigenous Affairs, Australian Taxation Office, Department of Transport and Regional Services, Australian Federal Police, Special Broadcasting Service Corporation, ASC Pty Ltd, Australian Bureau of Statistics, Comcare Australia, Medicare Australia and National Archives of Australia.

[56] Attorney-General's Department, Australian Communications and Media Authority, Australian Customs Service, Centrelink, Department of Agriculture, Fisheries and Forestry Australia, Department of Prime Minister and Cabinet, Department of the Treasury, Defence Housing Authority, Department of Immigration and Multicultural Affairs, Department of Industry, Tourism and Resources, National Museum of Australia, Department of Human Services and Department of Veterans' Affairs.

deterioration in their position. Three per cent of entities had the same number of 'A' and 'B' audit issues, while the remaining 60 per cent of the material entities had no category 'A' or 'B' audit issues either year.

4.51 Individual entity results are included, by portfolio, in Chapter Five of this Report. That chapter summarises the progress made by entities in respect of audit issues carried over from the interim audit and also highlights any new audit issues.

4.52 A broad range of internal control issues were raised as part of the final audit phase, all being consistent with issues from the interim audit phase and those of previous years. Most were specific to the entity concerned and covered issues such as.

- performance of key reconciliations—deficiencies continue to be identified in relation to the timely performance and review of key reconciliations in a number of entities;
- the financial statement preparation process—there are various opportunities for improvements in entities' financial statement preparation processes, to assist entities to meet financial reporting deadlines;
- the IT control environment, including access security—the robustness of controls within entities' key IT applications is critical to provide assurance as to the reliability, accuracy and completeness of the financial information derived from these systems. Issues in relation to the control environments continue to be identified by the ANAO; and
- business continuity—an important aspect of an entity's governance and risk management process is an assessment of the risk to the continued availability of all key business resources required to support essential or critical business activities. A continuing theme in ANAO reports on financial statement audits for a number of years has been the need for entities to ensure they develop, implement, test and document comprehensive business continuity plans in accordance with government policy.

4.53 These issues highlight the ongoing need for all Australian Government entities to focus on strengthening or maintaining internal controls. The ANAO will continue to focus on these areas in the 2006–07 year.

5. Results of the Audits of Financial Statements – By Portfolio

This chapter summarises the results of the audits of the financial statements of individual Australian Government entities.

Introduction

5.1 For reporting purposes, the structure of this chapter reflects the Portfolio arrangements, existing at 30 June 2006[57].

5.2 The tabular information for each portfolio indicates for each entity:

- the outcome of the audit (nature of audit opinion);
- the date the audit report was issued;
- moderate or significant internal control matters reported previously in prior reports not yet resolved; and
- new moderate or significant issues noted in the conduct of the financial statement audit since the publication of prior reports. [58]

5.3 The tabular information for each portfolio also identifies any entities that received modified (qualified or containing an emphasis of matter) audit reports or audit reports which contain an additional paragraph on other statutory matters. Further detail of these entities and the opinions issued were contained in Chapter Three.

5.4 For each material entity[59] a brief commentary covering both departmental and administered activities is provided on the financial results for the year. Issues arising from the audit activity are rated in accordance with the seriousness of the particular matter identified. The three tier rating scale of 'A', 'B' and 'C' detailed in Chapter Four, indicates to the respective entity the priority it needs to give to remedial action. Category 'B' or 'C' issues

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[57] As established in the Administrative Arrangements Order dated 27 January 2006.

[58] 31 March 2006 for selected material entities included in Audit Report No.48 2005–06. 31 August 2005 for all other entities, as reported in Audit Report No.21 2005–06.

[59] 68 entities are classified as material entities for Whole of Government reporting purposes with the remainder classified as non-material. These entities are considered material, as they constitute 99 per cent of revenues, expenses, assets and/or liabilities of the Australian Government.

unresolved at the time of the next audit may, depending on the seriousness of the issue, be given a higher subsequent rating.

5.5 Significant or moderate audit issues (Category 'A' and 'B' issues respectively), including those carried over from prior reports, and new issues arising since the publication of any reports, are also detailed. In addition, a brief commentary of any moderate or significant issues for non-material entities is provided.

5.6 Unless otherwise indicated, entities have advised of appropriate remedial action taken, or proposed, to address the matters included in this report.

5.7 It should also be noted that, presenting their 2005–06 financial statements, entities were required to amend comparative (i.e. 2004–05) information to accord with new AEIFRS requirements. In a number of instances this has resulted in different numbers appearing in this report for the 2004–05 year when compared to Report No. 21 2005–06. These revised comparatives have been subject to audit by the ANAO.

Agriculture, Fisheries and Forestry Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Agriculture, Fisheries and Forestry	**Yes**	✓	01 Sep 06	▲
- Australian Quarantine and Inspection Service	No	✓	01 Sep 06	
- National Residue Survey	No	✓	01 Sep 06	
Australian Fisheries Management Authority	No	✓	05 Sep 06	
Australian Pesticides and Veterinary Medicines Authority	No	✓	10 Aug 06	
Australian Wine and Brandy Corporation	No	✓	20 Sep 06	
Biosecurity Australia	No	✓	08 Sep 06	
Cotton Research and Development Corporation	No	✓	30 Aug 06	
Dairy Adjustment Authority	No	✓	30 Aug 06	
Fisheries Research and Development Corporation	No	✓	17 Aug 06	
Forest and Wood Products Research and Development Corporation	No	✓	11 Aug 06	
Grains Research and Development Corporation	**Yes**	✓	31 July 06	
Grape and Wine Research Development Corporation	No	✓	28 Aug 06	
Land and Water Resources Research and Development Corporation	No	✓	18 Aug 06	
Rural Industries Research and Development Corporation	No	✓	08 Sep 06	
Sugar Research and Development Corporation	No	✓	28 Aug 06	
Wheat Export Authority ☞: 30 September 2006	No	✓	8 Dec 06	

✓: audit report not modified
E : audit report contains an emphasis of matter
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✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.8 The Agriculture, Fisheries and Forestry portfolio aims to advance the interests of Australia's agriculture, food, fisheries and forest industries in ways that protect and enhance the natural resource base and are underpinned by sound scientific and economic research.

5.9 The Department of Agriculture, Fisheries and Forestry (DAFF) and the thirteen agencies comprising the agriculture, fisheries and forestry portfolio share the planned outcome of 'More sustainable, competitive and profitable Australian agriculture, food, fisheries and forestry industries.'

5.10 The portfolio is structured to contribute to the achievement of the Government's objectives of:

- helping Australian agricultural, food, fisheries, and forestry industries become more competitive, profitable and sustainable;
- enhancing the natural resource base on which these industries rely;
- delivering scientific advice and economic research, policy advice and programmes and services to help deal with the challenges faced by agricultural, food, fisheries and forestry industries;
- maintaining Australia's highly favourable animal and plant health status through quarantine, export inspection and certification and food safety standards activities; and
- improving trading opportunities for Australian agriculture and food industries.

5.11 The following comments relate only to material entities in the portfolio.

Department of Agriculture, Fisheries and Forestry

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	562.9	525.3
Total expenses	555.7	521.0
Total assets	219.7	202.1
Total liabilities	174.7	164.3

5.12 The increase in income was largely attributed to additional funding from Government to increase departmental capacity for new or expanded programs, including Exporting Australian Agriculture to Emerging Markets, Southern Blue Fin Tuna Scientific Research Program and Industry Partnerships Program. In addition, sales of goods and services revenues increased due to a higher level of activity and changes in fees and charges for services performed by the Australian Quarantine and Inspection Service (AQIS).

5.13 Expenses increased largely due to the measures outlined above, which included higher employee expenses resulting from increased staffing numbers and remuneration rates, in accordance with the certified agreement. There was also an increase in expenses due to additional IT services being purchased by DAFF under leasing arrangements and increases in make-good and other expenses resulting from the first time adoption of the Australian Equivalents to International Financial Reporting Standards (AEIFRS).

5.14 The increase in assets was primarily attributed to higher cash and appropriation receivable balances at year end, that were attributable to future funding of accrued employee entitlements and benefits.

5.15 Liabilities increased primarily due to an increase in employee related provisions. This was associated with an increase in staff numbers and a pay rise of 4 per cent this financial year. Other provisions also increased due to the unwinding of the discounted provision for make good and a new property lease agreement entered into this financial year.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	625.6	597.6
Total expenses	2 246.0	1 355.8
Total assets	716.1	536.3
Total liabilities	92.8	75.4

5.16 The increase in administered income was due to an increase in levies received during the 2005–06 financial year. Levies revenue fluctuates from year to year based on primary production levels and levy rates.

5.17 The increase in administered expenses was mainly attributable to a one-off $500 million grant to the Murray-Darling Basin Commission on 30 June 2006 and an increase in other grants, such as drought assistance which are demand/need driven and personal benefit payments.

5.18 Administered assets increased principally due to a change in the accounting treatment of investments in Commonwealth authorities and associated entities. As a result of adopting AEIFRS in 2005–06, the valuation of administered investments changed to fair value, whereas in prior years, these investments were reported at cost adjusted for any capital injections or repayments.

5.19 The increase in administered liabilities is attributable to an increase in grants payable to private sector entities associated with additional programmes, including the new Sugar Adjustment Package, Canker and Citrus Programs and the Fishing Structural Adjustment Package.

Audit results

Summary of audit findings

5.20 The ANAO reported one moderate control weakness in the interim phase of the audit in relation to the business continuity planning. At the time of the interim audit, DAFF had not completed some divisional Business Continuity Plans (BCPs), which was preventing DAFF from completing its agency-wide BCP and finalising the development of a test strategy and test plans. The ANAO will continue monitoring progress towards resolving this issue. DAFF expects to have this issue resolved by June 2007.

5.21 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Grains Research and Development Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	115.1	110.0
Total expenses	126.7	119.5
Total assets	127.7	135.6
Total liabilities	45.3	41.6

5.22 The increase in income of the Grains Research and Development Corporation related primarily to an increase in the volume of crop production and the first time recognition of accrued royalties from investments in research projects. The increase is slightly offset by a decrease in industry contributions due to a lower value of crops and a reduction in interest income. Interest income decreased as a result of a drop in the net market value of investments, as the overall investment portfolio attracted a fixed bond yield lower than the rising bond yields in the market.

5.23 The increase in expenses largely resulted from a $9 million increase in approved research and development projects and is offset by a $2 million reduction in the net market value of investments.

5.24 Assets decreased reflecting the drop in the net market value of investments.

5.25 The increase in liabilities was attributable to an increase in accrued research and development expenditure at year-end and an increase in income in advance from additional funding which was not utilised prior to year-end.

Audit results

Summary of audit findings

5.26 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.27 There were no moderate or significant audit issues impacting on non-material entities.

Attorney–General's Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Attorney-General's Department	**Yes**	✓	30 Aug 06	◆
Administrative Appeals Tribunal	No	✓	31 Aug 06	
Australian Crime Commission	No	✓	12 Sep 06	
Australian Customs Service	**Yes**	✓	15 Aug 06	▲
Australian Federal Police	**Yes**	✓	10 Aug 06	▲
Australian Government Solicitor	No	✓	28 Aug 06	▲
Australian Institute of Criminology	No	✓	19 Sep 06	◆
Australian Institute of Police Management	No	✓	25 Sep 06	
Australian Law Reform Commission	No	✓	04 Sep 06	
Australian Security Intelligence Organisation	No	✓	14 Sep 06	
Australian Transaction Reports and Analysis Centre	No	✓	07 Sep 06	
Criminology Research Council	No	✓	19 Sep 06	
CrimTrac Agency	No	✓	08 Sep 06	
Family Court of Australia	**Yes**	✓	28 Jul 06	
Federal Court of Australia	No	✓	08 Sep 06	
Federal Magistrates Court	No	✓	26 Sep 06	
High Court of Australia	**Yes**	✓	09 Oct 06	◆
Human Rights and Equal Opportunity Commission	No	✓	24 Aug 06	
Insolvency and Trustee Service Australia	No	✓	30 Aug 06	
National Native Title Tribunal	No	✓	18 Sep 06	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Office of Film and Literature Classification	No	✓	03 Oct 06	
Office of the Director of Public Prosecutions	No	✓	15 Sep 06	◆
Office of the Privacy Commissioner	No	✓	24 Aug 06	
Office of Parliamentary Counsel	No	✓	30 Aug 06	

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◆: new moderate or significant issues noted

Portfolio overview

5.28 The Attorney-General's portfolio comprises the Attorney-General's Department (AGD) and a number of statutory and non-statutory bodies. The AGD is the central policy and coordinating entity within the portfolio. The structure of the entities within the portfolio is aligned to the Government's overall commitment to a fairer and safer Australian society.

5.29 The portfolio covers a broad range of law and justice matters and services including legal policy and services to the Australian Government in areas of administrative, constitutional, civil, family, and international law, law reform, bankruptcy estate administration and regulation. In addition, the portfolio also covers courts and tribunals, legal aid, native title, national and international human rights issues, censorship, criminal law and law enforcement, national security, emergency management, and some aspects of customs and border control.

5.30 The portfolio's entities progress Government priorities, including direct services to the community within a legislative framework, through the purchase of services on behalf of the community, the provision of services to the Government, Ministers, Australian Government entities, and the provision of services to other clients.

5.31 The following comments relate only to material entities in the portfolio.

Attorney-General's Department

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	203.9	188.7
Total expenses	185.5	181.1
Total assets	142.6	107.7
Total liabilities	40.6	39.2

5.32 The movement in income was largely attributed to additional funding from Government for increased security and emergency management requirements.

5.33 The AGD's increased expenditure in 2005–06 largely related to employee expenses, which were higher due to an overall increase in staff numbers associated with the expanding operations of the AGD, as well as a rise in salary rates in accordance with the certified agreement. This increase was partially offset by a significant decrease in suppliers expenditure, predominantly due to the cessation of guarding services provided by the AGD to foreign diplomats, responsibility for which was transferred to the Australian Federal Police (AFP).

5.34 The increase in assets was primarily attributed to an increase in appropriations receivable due to changes in the timing of implementation of some programmes and the cessation of a programme. Infrastructure, plant and equipment also increased, largely due to an increase in finance leased IT assets and the acquisition of armoured vehicles for security arrangements for the Asia-Pacific Economic Cooperation (APEC) forum in 2006–07.

5.35 The small increase in the AGD's liabilities was primarily due to a higher employee entitlements provision as a result of an increase in average staffing levels, and the increase in finance leased IT assets.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	34.0	16.4
Total expenses	386.8	726.3
Total assets	324.0	198.3
Total liabilities	569.2	557.6

5.36 The increase in administered income was due to greater dividends and competitive neutrality payments from the Australian Government Solicitor (AGS).

5.37 The significant decrease in the AGD's administered expenses was predominantly a result of the inclusion of a one-off expense in 2004–05 for the write-down of a $359.2 million receivable in relation to funding from Government. There was no similar write down in 2005–06. The remainder of the movement is a result of a decrease in personal benefits expense due to new reporting requirements under the Australian Equivalents to International Financial Reporting Standards, and the winding back of the Handgun Buy Back Programme.

5.38 The increase in assets reflects an increase in dividends receivable from the AGS in addition to the new reporting requirement to recognise administered investments at fair value. These investments had previously been recognised at cost, adjusted for capital injections and repayments, in accordance with the previous reporting framework.

5.39 The increase in the AGD's administered liabilities was primarily related to the judges pension liability and grants payable. The judges pension liability is reassessed annually in line with an actuarial assessment. Grant payments were accrued at year end across a number of programmes, where milestones had been met, however payment by AGD had not been made.

Audit results

Summary of audit findings

5.40 The ANAO reported five moderate control weaknesses in the interim phase of the audit relating to:

- Departmental and Administered Reconciliations – untimely preparation, a lack of evidence of review, untimely actioning of variances and no detailed reconciliation between the Human Resource Management Information System (HRMIS) and the Financial Management Information System (FMIS);
- Section 31 Agreement – the classification by AGD of monies received as receipts covered by the section 31 agreement was not subject to review or approval;
- HRMIS change management – change management procedures for the HRMIS were in draft;
- HRMIS Security Access Management – inadequate user access management procedures, a lack of review of user profiles and no documented security profile matrix; and
- Business Continuity Plan – a number of divisional Business Continuity Plans were in draft.

5.41 The AGD has indicated that a number of processes have been implemented, or are being implemented, to resolve these issues. The ANAO will review these processes as part of the 2006–07 audit.

5.42 During the final phase of the audit, the ANAO noted one moderate risk issue related to weaknesses in the AGD's financial statement close process. The weaknesses primarily related to reliance on a draft internal timetable, the compilation process of data from line areas, limited quality assurance reviews and the monitoring of special appropriations. The AGD has indicated that a planning process has commenced to address this issue and ensure a timely and efficient process for the 2006–07 financial statements.

5.43 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	5	0	1	6
Total	**5**	**0**	**1**	**6**

Australian Customs Service

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	1 029.0	961.5
Total expenses	1 026.3	926.2
Total assets	486.9	436.4
Total liabilities	173.2	167.3

5.44 Customs' income for 2005–06 increased principally due to an increase in appropriations for Budget initiatives including biometric technologies for border processing, southern ocean maritime patrols, arming of marine vessels and an increase in airport security. In addition, Customs continues to receive funds for GST administration, which increased marginally from 2004–05.

5.45 The increase in expenditure is largely the result of an increase in employee expenses due to an increase in staff numbers and the impact of certified agreement salary adjustments. In addition, there was a rise in suppliers expense as a result of an increase in activities associated with the Commonwealth Games, the Budget initiatives identified above, and operating lease costs. Further, the full capitalisation of the Integrated Cargo System (ICS) in 2005–06 increased amortisation expenses.

5.46 Customs' increase in assets is predominately related to an increase in the undrawn appropriations receivable, resulting from delays in the implementation of new policy proposals. Other significant movements include a reduction in goods and services receivables through efficiencies in Customs debt collection processes, which is offset by an increase in capital spending on infrastructure.

5.47 The increase in liabilities is attributable to an increase in employee liabilities, associated with an increase in staff numbers and certified agreement salary adjustments, partially offset by a decrease in the liability for the marine vessel lease, which finished in September 2006.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	5 488.1	6 064.5
Total expenses	10.3	4.6
Total assets	114.6	80.4
Total liabilities	16.2	15.3

5.48 The decrease in administered income was primarily due to a $572 million reduction in customs duty collected. The reduction in duty collections reflects the full year impact of the United States and Thai free trade agreements and general tariff reductions effective from 1 January 2005. Reductions in non-taxation revenue also resulted from the discontinuation of the air courier levy.

5.49 The 2005–06 administered expenses increased due to a write-off of uncollectible debt, partially offset by a reduction in the doubtful debts provision.

5.50 The increase in administered assets reflects an increase in taxation and duty collection receivables. The implementation of the Integrated Cargo System (ICS) and changes to Customs' accounting processes resulted in a change in the timing, and subsequent recording, of taxation and duty receivables.

5.51 The small increase in administered liabilities relates to unearned warehousing fees.

Audit results

Summary of significant entity and administered audit findings

5.52 The ANAO reported two significant and five moderate control weaknesses in the interim phase of the audit.[60] The ANAO observed that Customs has undertaken significant effort to resolve, or partially resolve, these audit findings.

5.53 Customs has progressed work in a number of areas to address the business continuity and ICS user access management control weaknesses.

60 ANAO Audit Report No.48 2005–2006 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006*, pp. 87-90

Based on our observations and information provided by Customs, the business continuity finding has been reclassified from significant to moderate risk. Recent audit testing confirmed that the ICS user access management and logical access controls of financial information continue to be a significant risk.

5.54 Customs has resolved two moderate findings, IT Security Management and Technical Controls, however, Customs has yet to fully address control weaknesses identified by the ANAO for system change and configuration management, problem and incident management, and ICS processing controls.

5.55 Overall, Customs has made positive progress in resolving the controls weakness identified by the ANAO at interim. Continued momentum by Customs is necessary to further reduce or remove the audit issues. No new issues were identified in the final phase of the audit.

5.56 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since June 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	2	1*	0	1
B	5	2	1*	4
Total	**7**	**3**	**1**	**5**

* Includes one Category A issue downgraded to Category B.

Australian Federal Police

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	916.1	832.0
Total expenses	910.3	808.9
Total assets	507.5	426.5
Total liabilities	198.5	186.6

5.57 The increase in income and expenses is attributable to greater funding from government for new measures to address the increasing range of the Commonwealth's law enforcement interests in Australia and overseas. In particular, additional funding was received for the International Deployment Group, aviation security, diplomatic guarding and regional counter-terrorism assistance.

5.58 The overall increase in assets was mainly due to increased capital funding to support the new measures identified above.

5.59 The increase in liabilities was due to delays in the processing and payment of International Deployment Group invoices as a result of the Honiara riots in the Solomon Islands and the breakdown in civil law and order in East Timor.

Audit results

Summary of audit findings

5.60 The ANAO reported one new moderate control weakness in relation to access control to the systems and a legislative breach related to non-compliance with regulation 10 of the FMA Act. In addition, one moderate control weakness related to business continuity planning carried forward from the previous period. In this regard the Australian Federal Police advise the business continuity plan is expected to be completed by December 2006.

5.61 The access control issue related to two databases that support the financial and human resources systems. It was possible that a limited number of Australian Federal Police staff could, via a shared password, change other users' passwords and access sensitive transactions without leaving an audit trail. In this regard the Australian Federal Police advise they have implemented formal logging of privileged database administration accounts with a supporting monitoring process.

5.62 Two instances were found where Australian Federal Police did not obtain approval from a delegated official prior to entering into property leases that spanned a number of years. Regulation 10 of the FMA Act removes an approver's capacity to approve spending proposals such as leases where an appropriation is not authorised or before Parliament.

5.63 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since August 2005.

Ratings	Opening position at August 2005	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	3	2	1	2
Legislative Breach	0	0	1	1
Total	**3**	**2**	**2**	**3**

Family Court of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	141.5	131.6
Total expenses	142.8	131.1
Total assets	49.6	51.2
Total liabilities	30.6	30.8

5.64 The increase in income primarily related to an increase in appropriation revenue due to additional funding received for the new Adelaide Commonwealth Courts building operating costs and improved Court security. These factors also led to an increase in expenses.

5.65 There were no significant movements in assets and liabilities in 2005–06.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	2.3	2.3
Total expenses	0.0	0.0
Total assets	0.0	0.1
Total liabilities	0.0	0.0

5.66 There were no significant movements in administered balances in 2005–06.

Audit results

Summary of audit findings

5.67 There were no moderate or significant audit issues noted during the 2005–06 audit.

High Court of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	14.1	12.3
Total expenses	14.0	12.2
Total assets	179.8	179.1
Total liabilities	2.2	2.0

5.68 The High Court of Australia's (the Court) income was higher mainly to fund increased employee expenses, court security and new rent obligations for the Adelaide and Melbourne law courts.

5.69 The increase in expenses was due to a significant increase in employee expenses, including a rise in salary rates in accordance with a certified agreement, the creation of three new positions and the transfer of funding for technology assets in the Commonwealth Law Courts Building, Adelaide, to the Federal Court of Australia.

5.70 Assets of the Court increased due to the purchase of additional library resources. This was partially offset by depreciation charged on assets held.

5.71 The increase in liabilities related to employee provisions and was mainly due to salary increases and an increase in the number of employees.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	1.0	1.0
Total expenses	0.0	0.0
Total assets	0.0	0.0
Total liabilities	0.0	0.0

5.72 There were no significant movements in administered balances in 2005–06.

Audit Results

Summary of audit findings

5.73 ANAO reported one moderate audit issue during the 2005–06 audit. The Court needs to consider, as a part of their business continuity planning, the effects of disruptions to their business. This process includes establishing management endorsed procedures to mitigate and minimise the impact of disruptions to key business processes required to support essential business activities. The Court has a project underway to address this issue.

5.74 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since August 2005.

Ratings	Opening position at August 2005	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Comments on non-material entities

5.75 There were no moderate or significant issues impacting on non-material entities, with the exception of the AGS, the Australian Institute of Criminology (AIC) and the Office of the Director of Public Prosecutions (DPP).

Australian Government Solicitor

5.76 Two moderate risk issues were noted in relation to the adequacy of segregation of duties over the review and authorisation of journals, and the completion and testing of a Business Continuity Plan. The AGS is in the process of addressing these issues.

Australian Institute of Criminology

5.77 The AIC maintains a working library for research purposes which was revalued in 2005–06. An initial valuation was provided by the valuer, however, following clarification of the AIC's valuation and depreciation policies, a revised revaluation was provided and correctly recognised in the financial statements. The AIC has agreed with the ANAO recommendation that the AIC's accounting policies be extended to provide greater conceptual guidance as to the valuation methodology for this asset, and that these policies be provided to valuers to assist them in future assessments.

Office of the Director of Public Prosecutions

5.78 The ANAO identified two moderate control weaknesses in the interim phase of the audit. DPP does not have a combined Business Continuity Plan (BCP) in place covering both IT and non-IT systems, however DPP IT has a Business Impact Analysis, IT Disaster Recovery Plan and IT Recovery Procedures. The IT Disaster Recovery Plan and the Business Impact Analysis have not been updated since 2002 although IT Recovery Procedures that underpin the plan are updated regularly with the last update in August 2006. In addition, a control weakness in relation to access controls over the human resource system was identified. During the final phase of the audit, the ANAO noted that DPP plans to commence preparation of the combined BCP in October 2006 and that priority has been given to addressing the human resource system issues.

Communications, Information Technology and the Arts Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Communications, Information Technology and the Arts	**Yes**	✓	29 Sep 06	
Australia Council	No	✓	30 Aug 06	
Australian Broadcasting Corporation	**Yes**	✓	27 Jul 06	
— Adelaide Symphony Orchestra Pty Ltd ☞ 31 December 2005	No	E	14 Jun 06	
— Melbourne Symphony Orchestra Pty Ltd ☞ 31 December 2005	No	E	07 Jun 06	
— The Queensland Orchestra Pty Ltd ☞ 31 December 2005	No	E	15 Jun 06	
— Sydney Symphony Orchestra Holdings Pty Ltd ☞ 31 December 2005	No	E	20 April 06	
— Symphony Australia Holdings Pty Ltd ☞ 31 December 2005	No	✓	29 May 06	
— Tasmanian Symphony Orchestra Pty Ltd ☞ 31 December 2005	No	E	06 Jun 06	
— West Australian Symphony Orchestra Holdings Pty Ltd ☞ 31 December 2005	No	E	15 Jun 06	
Australian Business Arts Foundation Ltd	No	✓	01 Sep 06	
Australian Communications and Media Authority	**Yes**	✓	09 Aug 06	◆
Australian Film Commission	No	✓	14 Sep 06	
Australian Film, Television and Radio School	No	✓	04 Sep 06	
Australian National Maritime Museum	No	✓	13 Sep 06	
Australian National Maritime Foundation	No	✓	13 Nov 06	
Australian Postal Corporation	**Yes**	A	24 Aug 06	
Australian Sports Commission	**Yes**	✓	31 Aug 06	
Australian Sports Drug Agency	No	✓	18 Sep 06	
Australian Sports Foundation	No	✓	22 Sep 06	
Australian Sports Anti-Doping Authority	No	✓	18 Sep 06	
Bundanon Trust	No	✓	12 Sep 06	
Film Australia Limited	No	✓	08 Sep 06	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Film Finance Corporation Australia Limited	No	✓	13 Sep 06	
National Archives of Australia	**Yes**	✓	14 Aug 06	
National Gallery of Australia	**Yes**	✓	31 Jul 06	
– National Gallery of Australia Foundation	No	✓	09 Aug 06	
National Library of Australia	**Yes**	✓	05 Aug 06	
National Museum of Australia	**Yes**	✓	20 Jul 06	◆
NetAlert Ltd	No	✓	29 Aug 06	
Regional Telecommunications Infrastructure Fund ☞ 16 May 2006	No	✓	29 Sep 06	
Special Broadcasting Service Corporation	**Yes**	✓	17 Aug 06	
– Multilingual Subscriber Television Limited	No	✓	17 Aug 06	
Telstra Corporation Limited	**Yes**	✓	10 Aug 06	

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Portfolio overview

5.79 The Communications, Information Technology and the Arts portfolio covers 34 reporting entities with responsibility for supporting and implementing related government policies. These agencies play a vital role in assisting in the development of communications, information technology, the arts and sports grants and other support, ensuring an integrated approach to delivery of online policy, to overseeing regulations and developing industry codes of practice, as well as advising government.

5.80 The following comments relate only to material entities in the portfolio.

Department of Communications, Information Technology and the Arts

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	129.1	122.3
Total expenses	114.5	113.8
Total assets	130.2	114.4
Total liabilities	27.5	28.8

5.81 The increase in income was mainly attributable to slight increases in appropriations for outputs, donations collected and exhibition fee revenue from Old Parliament House.

5.82 There was no significant movement in departmental expenses.

5.83 The increase in total assets was mainly due to an increase in unspent funds due to some projects, particularly Connect Australia not being able to be fully completed by 30 June 2006. In addition, there was an increase in the non-current assets balance due to the conduct of a revaluation.

5.84 The slight decrease in total liabilities at 30 June 2006 was due to a reduction in supplier payables as a result of a focussed effort to settle supplier accounts prior to year end.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	2 965.7	2 645.1
Total expenses	637.2	600.2
Total assets	34 266.7	7 342.5
Total liabilities	64.1	15.5

5.85 The increase in total income was mainly attributable to an increase in dividends collected from Telstra Corporation Limited of $451.2 million and Australian Postal Corporation of $40.8 million. In addition, $86.2 million in interest was earned from investment of the Communications Fund, which was established during 2005–06. The increase was offset by a decrease of

$231.8 million in Universal Service Obligation (USO) levy revenue due to the transfer of this function to the Australian Communications and Media Authority (ACMA) on 1 July 2005.

5.86 The increase in administered expenses was mainly attributable to the commencement of the Connect Australia programmes in 2005–06 which incurred expenses of $126.9 million, the provision of the Melbourne 2006 Commonwealth Games grant in 2005–06 of $72.9 million and the increase in expenses in the Regional Telecommunications Inquiry programmes of $58.1 million. This was largely offset by a decrease of $232.2 million due to the transfer of responsibility for the USO programme to ACMA in 2005–06.

5.87 The significant increase in administered assets was mainly due to the adoption of the requirements of the Australian Equivalent of International Financial Reporting Standards (AEIFRS) in relation to valuing administered investments in 2005–06. Under AEIFRS, administered investments are required to be valued at fair value. Prior to 2005–06, these investments were carried at their 1 July 1997 carrying value, adjusted for equity injections and returns of capital. The main increases related to Telstra of $18.8 billion, National Gallery of Australia of $3.1 billion, National Library of Australia of $1.6 billion and Australian Postal Corporation of $0.5 billion. In addition, the Department commenced investment of the Communications Fund during the year. Investments of $2.1 billion were held at 30 June 2006.

5.88 The increase in administered liabilities was mainly attributable to a $50.6 million subsidy payable for the Connect Australia - Broadband Connect programme.

Audit results

Summary of audit findings

5.89 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Broadcasting Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	961.3	924.0
Total expenses	929.2	891.3
Total assets	1 044.2	1 025.0
Total liabilities	302.1	308.5

5.90 No significant movement in the financial measures of the Australian Broadcasting Commission occurred during 2005–06.

Audit results

Summary of audit findings

5.91 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Communications and Media Authority

Financial results

Summary of entity results

Key financial measures for year	2006 $m
Total income	76.8
Total expenses	73.8
Total assets	57.3
Total liabilities	23.5

5.92 The Australian Communications and Media Authority was formed on 1 July 2005 by the merging of the Australian Communications Authority (ACA) and Australian Broadcasting Authority (ABA). ACMA is an FMA agency.

5.93 Total income primarily comprised government appropriations of $72.9 million, goods and services income of $1.7 million and other income of $2.2 million.

5.94 Total expenses primarily comprised employee expenses of $43 million, supplier expenses of $24.7 million, and depreciation and amortisation expenses of $5.7 million.

5.95 Total assets primarily comprised cash and cash equivalents of $4.1 million, receivables of $28.8 million, infrastructure, plant and equipment of $3.6 million, and intangibles of $7.4 million.

5.96 Total liabilities primarily comprised employee provisions of $14.3 million, lease incentives of $3.8 million, and suppliers and other payables of $3.2 million.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m
Total income	751.2
Total expenses	219.7
Total assets	307.1
Total liabilities	3.2

5.97 Total administered income comprised taxation income of $474.8 million (including broadcasting licence fees of $289.7 million, radiocommunications tax of $125.1 million and annual numbering charges of $60 million) and non-taxation income of $276.4 million (including charges and levies of $249.2 million).

5.98 Total administered expenses primarily comprised the universal service obligation subsidy of $211.4 million.

5.99 Total administered assets primarily comprised receivables for the above taxation and non-taxation charges of $305.9 million.

5.100 Total administered liabilities comprised supplier payables of $1.5 million and unearned income of $1.7 million.

Audit results

Summary of audit findings

5.101 The ANAO noted one moderate control weakness during the 2005–06 audit. ACMA's draft fraud control plan has not yet been approved and finalised. The lack of a finalised fraud control plan may result in fraud risks not being identified and appropriately managed.

5.102 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues reported and resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Australian Postal Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	4 498.8	4 295.8
Total expenses	3 982.6	3 822.8
Total assets	4 807.6	4 192.7
Total liabilities	2 419.6	2 221.6

5.103 Income growth was experienced across some business activities. This was primarily due to growth from existing customers and new business in traditional markets.

5.104 The increase in expenses was predominantly due to increases in labour costs, which were in line with the certified agreement.

5.105 Assets have increased as a result of the performance of the superannuation plan where a provision exists for the return to Australian Postal Corporation any surplus above employee benefits. This may result in reduced future superannuation expenses.

5.106 The increase in liabilities is primarily due to an actuarial review that resulted in an increase in employee provisions relating to long service leave.

Audit results

Summary of audit findings

5.107 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Sports Commission

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	190.5	166.1
Total expenses	189.6	160.9
Total assets	223.2	196.8
Total liabilities	27.6	22.8

5.108 The increase in income of the Australian Sports Commission related primarily to additional funding from the Australian Government for grants to sporting organisations and the first full year of the Active After-School Communities programme.

5.109 The increase in expenses was due to several factors including a general increase in grants to sporting organisations, the Active After-School Communities programme, an expanding workforce that is linked to this programme, a rise in salary rates in accordance with the certified agreement, and an increase in expenditure related to the new Sports Development Education Centre.

5.110 The increase in assets reflected several development projects including the new Sports Development Education Centre, a new Aquatic Centre, and several smaller projects for the upgrade of existing land and buildings.

5.111 The increase in liabilities was due to greater employee provisions for the higher employee numbers associated with the Active After-school Communities programme and higher trade creditors directly linked to the new development projects.

Audit results

Summary of audit findings

5.112 There were no moderate or significant audit issues noted during the 2005–06 audit.

National Archives of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	76.6	71.7
Total expenses	70.3	69.1
Total assets	1 208.5	1 202.4
Total liabilities	12.9	13.1

5.113 The increase in income was attributed to $3.6 million of new collection items transferred to the National Archives of Australia (NAA) from other Australian Government entities, and additional funding from the Australian Government of $1.5 million for higher insurance premiums and the impact of AEIFRS.

5.114 Expenses have remained relatively stable in comparison to 2004–05.

5.115 The increase in assets was primarily attributed to the accumulation of $10.7 million for future capital acquisition plans, and the additions to collection, infrastructure, plant and equipment and intangible assets of $14.4 million. This increase was partially offset by a $3.5 million asset write-off, which related primarily to intangible assets and an assessment of Collection impairment and the depreciation expense of $15.0 million.

5.116 Liabilities have remained relatively stable in comparison to 2004–05.

Audit results

Summary of audit findings

5.117 In 2004–05, the ANAO had reported an issue with moderate risk regarding the National Archive's financial statement preparation process. Improvement was made in 2005–06 and the matter was satisfactorily resolved.

5.118 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues reported and resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	1	1	0	0
Total	**1**	**1**	**0**	**0**

National Gallery of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	52.5	52.7
Total expenses	47.6	46.6
Total assets	3 346.4	3 322.1
Total liabilities	9.7	8.3

5.119 There were no significant movements in income and expenses in 2005–06.

5.120 The increase in total assets is a result of an upwards revaluation of land and buildings during the year and additions to collection assets.

5.121 The increase in total liabilities was due to an increase in trade creditor balances at year end and an increase in employee liabilities.

Audit results

Summary of audit findings

5.122 There were no moderate or significant audit issues noted during the 2005–06 audit.

National Library of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	72.0	70.2
Total expenses	68.6	66.5
Total assets	1 690.3	1 754.7
Total liabilities	14.5	14.0

5.123 The increase in income was mainly due to an increase in interest earned on term deposits.

5.124 The increase in expenses was primarily due to a rise in salary rates in accordance with the certified agreement, an increase in inventory write down and loss on sale of assets.

5.125 The decrease in assets was primarily due to a revaluation decrement of non-current assets in the Cultural and Heritage category.

5.126 The increase in liabilities was due to the increase in the employee provisions as a result of the combined impact of higher salary rates and an increase in the average staffing level.

Audit results

Summary of audit findings

5.127 There were no moderate and significant audit issues noted during the 2005–06 audit.

National Museum of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	45.9	45.2
Total expenses	46.4	41.1
Total assets	356.8	298.0
Total liabilities	6.7	3.7

5.128 There was very little movement in the income of the National Museum of Australia (NMA).

5.129 The increase in expenses was mainly due to a 19 per cent increase in staff numbers as well as an increase in salary rates and exhibitions costs.

5.130 The increase in assets was due to the revaluation of property, plant and equipment assets, and in particular, the National Historical Collection.

5.131 The increase in liabilities was related to increases in employee provisions arising from the increased staffing and in supplier payables at year end.

Audit results

Summary of audit findings

5.132 Two moderate issues were raised in the final phase of the audit.

5.133 Although the NMA had implemented a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for the entity, the plans did not adequately cover all IT processes and procedures. In particular, there were no DRPs for critical IT systems and no BCP for the financial management information system (FMIS).

5.134 An IT security policy was in draft form and did not cover the FMIS. Additionally, some aspects of IT security required further improvement.

5.135 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	0	0	2	2
Total	**0**	**0**	**2**	**2**

Special Broadcasting Service Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	241.8	208.7
Total expenses	240.9	208.3
Total assets	226.8	216.7
Total liabilities	97.5	94.0

5.136 The increase in income was attributable to higher Government appropriations for the rollout of digital distribution and transmission; and increased advertising and sponsorship revenue, mainly due to the 2006 FIFA World Cup.

5.137 The increase in expenses was due to increased expenses relating to the rollout of the digital distribution and transmission; increased amortisation of program rights; increased expenditure arising from the screening of the 2006 FIFA World Cup, including the cost of the World Cup rights, production and travel costs; and increased broker and agency commissions arising from increased advertising and sponsorship revenue.

5.138 The increase in assets was mainly due to the one-off increased advertising and sponsorship debtors for the 2006 FIFA World Cup, and to the increased value of program rights.

5.139 The increase in liabilities was mainly due to increased employee provisions, including a provision for separations and redundancies arising from an organisational restructure.

Audit results

Summary of audit findings

5.140 There were no significant audit issues raised in the interim or final phases of the audit. In 2004–05, there were two audit findings, one relating to the business continuity plan and the other relating to formal disaster recovery plans for key application systems within the organisation. The Corporation has taken the appropriate steps to progressively resolve these issues.

5.141 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues reported and resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	2	2	0	0
Total	**2**	**2**	**0**	**0**

Telstra Corporation Limited

5.142 An unqualified audit report on Telstra Corporation Limited's financial statements was issued.

Comments on non-material entities

5.143 There were no moderate or significant issues arising in relation to non-material entities within the portfolio, except for Adelaide Symphony Orchestra Pty Ltd, Melbourne Symphony Orchestra Pty Ltd, Sydney Symphony Orchestra Pty Ltd, Tasmanian Symphony Orchestra Pty Ltd, Queensland Orchestra Pty Ltd and West Australian Symphony Orchestra Pty Ltd.

Orchestras

5.144 The financial reports of the Orchestras for the year ended 31 December 2005 disclosed a significant uncertainty of future funding and the impact on the orchestras' operations if funding did not eventuate. Unqualified audit reports with an emphasis of matter on significant uncertainty regarding continuation as a going concern were issued.

Defence Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Defence	**Yes**	Q, A	26 Oct 06	◆▲
Army and Air Force Canteen Service	No	✓	08 Sep 06	
Australian Military Forces Relief Trust Fund	No	✓	12 Sep 06	
Australian Strategic Policy Institute Ltd.	No	✓	01 Sep 06	◆
Australian War Memorial	**Yes**	✓	09 Aug 06	
Defence Housing Authority	**Yes**	✓	28 Aug 06	
Defence Materiel Organisation	**Yes**	✓	09 Oct 06	▲◆
Defence Service Homes Insurance Scheme	No	✓	15 Aug 06	
Department of Veterans' Affairs	**Yes**	A	29 Aug 06	◆
Military Superannuation and Benefits Board of Trustees No. 1	No	✓	06 Sep 06	
Military Superannuation and Benefits Scheme	No	A	08 Sep 06	◆
Royal Australian Air Force Veterans' Residences Trust Fund	No	✓	12 Sep 06	
Royal Australian Air Force Welfare Trust Fund No. 3	No	✓	23 Aug 06	
Royal Australian Navy Relief Trust Fund	No	✓	18 Sep 06	

✓: audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
☞: financial year end date other than 30 June 2006
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.145 The Defence portfolio is responsible for developing, implementing and administering policies, programmes and services to defend Australia and its national interests. The portfolio is also responsible for carrying out government policy and implementing programmes to fulfil Australia's obligations to war veterans and their dependents, as well as providing compensation claims management services to currently serving and former members of the Australian Defence Force (ADF).

Department of Defence

Financial results

Audit Results

5.146 As a result of ongoing remediation activities in relation to its financial statements, the Department of Defence (Defence) was able to remediate several key financial balances in 2005–06, including Leave, Explosive Ordnance (EO) and Infrastructure, Plant and Equipment and Intangibles, enabling the Secretary and Chief Finance Officer to sign Defence's 2005–06 financial statements as 'true and fair' except for:

- the effect of uncertainty relating to the amount of $1.7 billion of Inventories-General (within Inventories);
- the effect of uncertainty relating to the amount of $2.2 billion of Repairable Items (within Specialist military equipment);
- the effect, if any, of the above items on the amounts of Suppliers Expense, Depreciation, Assets Now Recognised and Assets Written Off recorded in the Income Statement; and
- the effect of uncertainty relating to the above items in the comparative Balance Sheet as at 30 June 2005 and the effect, if any, in the comparative Income Statement for the year ended 30 June 2005.

5.147 On 26 October 2006, the Auditor-General issued a qualified opinion on Defence's financial statements. The opinion concluded that Defence's financial statements were true and fair with the exception of Inventories-General and Repairable Items, consistent with the view of the Secretary and Chief Finance Officer. The qualifications arose from significant audit issues, that were expressed as limitations on the scope[61] of the audit, in relation to the two aforementioned balances. These limitations are attributable to the internal control environment surrounding inventory and specialist military equipment (SME) asset management. These qualifications are discussed in more detail later in this section.

5.148 Further, as a result of the matters referred to above, Defence's accounts and records do not properly record and explain Defence's transactions and

[61] Limitations on the scope of the audit arise when sufficient appropriate audit evidence does not exist to support a reported balance.

balances in respect of Inventories-General and Repairable Items, in contravention of section 48 of the FMA Act.

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	17 249.4	16 742.8
Total expenses	17 393.9	17 620.6
Total assets	55 022.4	54 454.8
Total liabilities	3 313.4	4 342.8

5.149 By virtue of the transition to AEIFRS and the resultant ability to retrospectively correct prior year errors in balances, material adjustments were made by Defence in relation to prior year balances in the Balance Sheet and Income Statement, as disclosed in notes 2 and 3 to Defence's 2005–06 financial statements. There were no material movements between the 2005–06 balances and the restated 2004–05 comparative balances in income, expenses or assets of Defence.

5.150 The reduction in departmental liabilities is predominantly the result of the impact of the transfer of the provision for Asbestos related disease exposure, which transferred to Comcare as of 26 October 2005 as per the *Asbestos-Related Claims (Management of Commonwealth Liabilities) Act 2005,* coupled with the de-merger of DMO from Defence on 1 July 2005.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	729.6	745.7
Total expenses	2 754.2	2 819.6
Total assets	1 148.7	1 341.5
Total liabilities	33 888.4	36 954.9

5.151 There were no material movements in administered income and expenses of Defence in 2005–06.

5.152 The reduction in administered assets reflects the impact of the transition to AEIFRS on 1 July 2005 on the value of the Commonwealth's investment in the Defence Housing Authority (DHA). The investment was previously recorded at its 1 July 1997 carrying value, adjusted for equity injections and repayments, however as a financial instrument, under AEIFRS the investment is measured at its fair value.

5.153 The reduction in administered liabilities is predominantly a result of the increase in the interest rate used for discounting the superannuation liability for the Defence Force Retirement and Death Benefits (DFRDB) and the Military Superannuation and Benefits (MSBS) schemes to present value.

Audit results

Financial Remediation Project

5.154 In its Portfolio Budget Statements 2006–07, Defence acknowledged their continued progress on a range of financial management and business systems and processes, although noting that more work was still required. Defence also noted important initiatives that have been established. These included:

- the development and progressive implementation of 16 remediation strategies;
- rigorous monitoring of remediation strategies by the Financial Statements Project Board (FSPB), augmented by a representative from the Department of Finance and Administration and a private sector accounting specialist;
- establishment of program offices in the Chief Finance Officer Group and the DMO to drive audit remediation strategies and to provide independent advice to the Secretary and the FSPB on the achievement of remediation outcomes; and
- development of a financial controls framework that will standardise financial transactional and management processes across the portfolio to improve the integrity of financial data, budgeting and financial statements.

5.155 The intention of Defence's ongoing financial remediation is to assess, correct and substantiate records and address a range of deficiencies within key Defence operational and financial systems. Underpinning this process is the aforementioned 16 remediation strategies. These remediation strategies represent a critical success factor for enhancing Defence's financial management, and as such their progress, timing and relevance should be reviewed and reassessed to reflect the current status of activity.

5.156 In 2005–06, Defence developed a series of 29 technical position papers representing its assessment of various and wide ranging accounting issues, including inventory valuation, analysing prior period errors and materiality.

These position papers underpin the ongoing financial remediation project and outlined Defence's high-level approach to address certain accounting issues. The position papers were used to inform Defence and ANAO of the accounting policies and treatments to be applied in the preparation of the 2005–06 financial statements, and were also used by ANAO to determine the nature, timing and extent of audit procedures.

5.157 The development of these position papers and the consultation process between Defence and ANAO to address and resolve any technical issues and points of clarification arising was viewed as a contributing factor to the successful completion of the financial statement preparation and associated audit.

5.158 This is the second year of remediation activity, and as detailed earlier, Defence has successfully remediated previously reported issues concerning the accuracy of civilian and military annual leave balances, civilian long service leave, pricing of EO, and the completeness and valuation of infrastructure, plant and equipment and intangibles.

5.159 Issues still remain with regard to the completeness and measurement of Inventories-General and Repairable Items, which have contributed to the qualified audit opinion in 2005–06. Further detail on the limitations of scope concerning Inventories-General and Repairable Items is provided later within this report.

Introduction of AEIFRS

5.160 The implementation of AEIFRS and the disclosure by Defence in their 2004–05 financial statements of the inability to quantify the financial impact of adopting AEIFRS created additional challenges in 2005–06. Under the reporting requirements of AEIFRS, financial information for the 2004–05 financial year (previously reported under Australian Generally Accepted Accounting Principles (AGAAP)), was required to be restated under AEIFRS and reported as comparative information in the 2005–06 statements.

5.161 In addition to the preparation of current financial year accounts under AEIFRS and given the information deficiencies reported in prior years, Defence was required to prepare a transitional balance sheet at 1 July 2004 and restate comparative 2004–05 data in accordance with AEIFRS during 2005–06. Coupled with this, complex accounting issues required resolution, including the interpretation and application of new requirements concerning the measurement of inventory, recognition of provisions and the assessment and recognition of reportable embedded derivatives.

5.162 Defence was able to successfully transition to AEIFRS, with the exception of Inventories-General and Repairable Items, as a result of the amendment to AASB 1. This amendment permitted compliance to AEIFRS for not-for-profit public sector entities that experienced extreme difficulties in complying with the requirements of AEIFRS due to information deficiencies that have caused the entity to state non-compliance with previous AGAAP. In accordance with the requirements of the amendment, Defence has disclosed: an explanation of information deficiencies; its strategy for rectifying those deficiencies and the AEIFRS standards that have not been complied with; and has made an explicit and unreserved statement of compliance with other AEIFRS standards for which there are no information deficiencies.

Summary of audit findings

5.163 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since November 2005.

Ratings	Opening position at November 2005	Issues transferred to DMO[62]	Issues reclassified or merged[63]	Issues resolved prior to June 2006	New issues to June 2006	Closing position at June 2006[64]
A	42	(8)	(4)	(3)	2	29
B	41	(3)	0	(11)	13	40
Total	**83**	**(11)**	**(4)**	**(14)**	**15**	**69**

5.164 The above table reflects the status of issues raised in the interim phase of the 2005–06 audit. Due to the delayed conclusion of the Defence financial statements and the associated audit, the table does not reflect new issues that arose or were remediated in the final phase of the audit.

62 This represents those findings previously reported to Defence of which are now being managed by DMO as a result of the de-merger of 1 July 2005.

63 This column represents the net number of issues that have either been reclassified or merged into another issue.

64 Issues outstanding at June 2006 are those at the completion of the interim phase of the audit. Issues identified in the final phase of the audit (through to October 2006) are currently being discussed with management and will be included in a later report.

5.165 As detailed previously, in accordance with current arrangements between Defence and DMO, DMO acts as the business process manager for Assets Under Construction (AUC), the Standard Defence Supply System (SDSS) and COMSARM. Accordingly, all prior year audit issues and any new issues arising relating to functions managed by DMO are now separately reported to DMO.

Limitations of Scope –Inventories-General and Repairable Items

5.166 Inventories-General and Repairable Items are managed on Defence's key logistics management system, SDSS. Defence has identified and committed to an extensive program of remediation activity in response to previously identified logistics and financial management issues and has specifically identified five separate remediation plans relating to Inventories-General and Repairable Items.

5.167 The ANAO's approach for 2005–06 was to review the SDSS application and to conduct testing of technical and application controls and the revised security frameworks. This work concluded that while progress in relation to SDSS remediation was being made, controls reliance over the SDSS application could not be gained for the 2005–06 financial year.

5.168 Subsequently, Inventories-General and all but the results of the significant item testing for Repairable Items was agreed to be de-scoped from the final financial statement audit by the Secretary and the Auditor-General in July 2006. As a result, Defence was not in a position to conclude positively at 30 June 2006 on the Inventories-General balance because of concerns with quantity and price data and, similarly, in respect of a significant portion of the Repairable Items balance as a consequence of concerns with quantity data. This constituted a limitation in the scope of the audit in relation to Inventories-General and Repairable Items for 2005–06.

5.169 In addition to the above, there are items referred to as 'Not-In-Catalogue' (NIC) which are currently not recorded on SDSS. Defence has established a remediation plan to address NIC, which has a dual focus of remediating the current items that are NIC and implementing additional preventative measures to ensure the issue does not reappear in the future. Remediation of this issue is continuing with Defence anticipating remediation in 2006–07. Further, in relation to Repairable Items, there is uncertainty in relation to the completeness of the recorded balance due to the effect of the methods used for setting asset recognition thresholds over a number of years.

As these issues were not fully remediated in 2005–06, the impact of these issues contributed to the uncertainty in relation to the completeness of the Inventories-General and Repairable Items balances at 30 June 2006.

Explosive Ordnance

5.170 In 2004–05, there was uncertainty surrounding the pricing of a portion of the EO balance, as Defence was unable to provide sufficient supporting documentation to support the recorded value. This uncertainty arose where pricing supporting documentation was not available to validate the reported value and where items included in the provision for obsolescence were not in accordance with Defence policy and accounting standards.

5.171 In 2005–06, Defence remediated this balance and reduced the uncertainty due to several actions, firstly, by writing down the value of inventory to the lower of cost and current replacement cost in accordance with AASB 102 *Inventories*, and secondly, use of 'best estimate' values where primary documentation was not available. These actions, together with the corrections of prior year errors under AEIFRS, resulted in the uncertainty in relation to the balance being mitigated for 2005–06 and the comparative year.

Infrastructure, Plant and Equipment, and Intangibles

5.172 In 2004–05, the ANAO was unable to conclude on the completeness and valuation of the Infrastructure, Plant and Equipment, and Intangibles reported balance due to two issues, namely, the setting of asset capitalisation thresholds without sufficient analysis of the financial impact, and the exclusion of appropriate processes for the valuation of specific IT assets. Due to the extent of the asset capitalisation thresholds issue, which resulted in assets being expensed rather than capitalised, the ANAO was not able to confirm the completeness of the reported balance in 2004–05. Furthermore, Defence advised in 2004–05 that $103 million of the reported balance relating to IT assets had not been subject to revaluation, but would be included in the process for 2005–06.

5.173 Both of these issues were remediated by Defence in 2005–06 (in addition to adjustments made to comparative balances). The IT assets that were not subject to revaluation in 2004–05 were appropriately revalued and are reflected in the Balance Sheet at fair value. In relation to the asset capitalisation issue raised in 2004–05, Defence has performed a review of assets expensed in prior years in order to capitalise previously expensed items. This resulted in the capitalisation of assets in 2005–06 of some $454 million and an associated impact on the Income Statement for the effect of depreciation of $92 million. Conversely, an adjustment to the suppliers expense balance of 2004–05 of $91 million was also made to remove previously expensed asset purchases in that year.

5.174 Although some deficiencies were noted in the approach taken by Defence to establish the capitalisation of assets, the ANAO concluded in 2005–06 that the uncertainty in relation to this balance has been addressed.

Military and Civilian Leave Provisions

5.175 In 2004–05 the ANAO reported inadequacies in Defence's civilian and military employee personnel systems and practices primarily relating to the capture and recording of data within those systems relating to employee leave records and the appropriate maintenance of supporting documentation for financial statement reporting processes. These deficiencies contributed to uncertainty with regard to the reported balance of the Military and Civilian Leave Provisions and were reported as a limitation in the scope of the audit in 2004–05. This qualification also led to uncertainty over employee leave expenses and an inability to validate amounts within the Executive Remuneration Note.

5.176 Significant work was performed by Defence in 2005–06 in relation to the Leave provisions, including sampling, reviews of controls and supporting analysis in order to reduce the uncertainty. Defence concluded the results of substantive testing, analysis and controls review gave sufficient assurance to management that the annual and long service leave balances were not materially misstated, and consequently, the employee expenses amounts and the amounts within the Executive Remuneration Note were similarly not materially misstated.

5.177 ANAO reviewed the processes conducted by Defence to provide management assurance as to the reported balance. Our review concluded that although Defence's leave controls did not provide sufficient assurance that the employee provisions balances were not materially misstated, substantive testing of leave transactions, coupled with analytical procedures, demonstrated that while errors were present, the errors did not have a material impact on the financial statements.

5.178 As a result, the ANAO concluded that the underlying uncertainty reported in 2004–05 concerning leave provisions, and the associated impact on employee leave expenses and the Executive Remuneration Note was mitigated.

Provision for Decontamination

5.179 Accounting standards under AEIFRS require the recognition of restoration provisions, including costs associated with decontamination, arising out of the acquisition and construction of assets. In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* a provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made.

5.180 Defence presented a series of technical position papers detailing its interpretation and application of the provisions of AASB 137. In accordance with these position papers, Defence recognised a provision for decontamination at the date of transition to AEIFRS. The ANAO reviewed the principles of recognition and concurred with the approach undertaken, however several issues were noted in relation to the compilation of the balance, including the quality of information used for assessing contamination (including the completeness and quality of data contained in the contaminated site register) and assumptions applied in the estimation processes. Given this was the first year for measuring and recording this provision under AEIFRS, further enhancements in the estimation process are recommended for 2006–07.

Leases and Commitments

5.181 Deficiencies in the preparation and reporting of information for the Schedule of Commitments, including issues regarding the completeness and accuracy of information incorporated in the schedule have been an issue for Defence since 2002–03. For 2004–05, significant errors in the Schedule were primarily attributed to inadequate preparation and quality assurance procedures. Despite improvements in presentation, significant issues and delays with the preparation and reporting of this item continued in 2005–06, including Defence's inability to provide sufficient source documentation for certain leases.

5.182 Further improvements in the accuracy of data sources are required for 2006–07 to support the Schedule of Commitments. Remediation measures proposed by Defence aimed at quality assuring the sources of data are yet to be fully implemented.

5.183 The process of compiling the Schedule is complex with many adjustments made as the general ledger does not capture the commitment, or the controls on the recording process are absent or unused. This indicates that

Defence policies requiring all commitments, including lease commitments, to be entered in the general ledger and fully phased are not followed. The number of adjustments required increases the risk of errors of omission or double counting.

5.184 In 2004–05, the ANAO concluded that a material component of a lease met the criteria of a finance lease arrangement in accordance with Accounting Standards. At the time of finalisation of the 2004–05 accounts, Defence disagreed with this assessment. Subsequently in 2005–06, Defence reassessed the position and recognised the lease in question as a finance lease. This is now appropriately reflected in the 2005–06 financial statements.

Financial Statement Preparation

5.185 Defence completed its financial statements preparation process and signed the financial statements on 26 October 2006. This represents an improvement on prior year performance (2005: 3 November 2005, 2004: 17 November 2004) and is particularly significant in light of the complex accounting issues in 2006 associated with the de-merger of DMO, transition to AEIFRS and remediation of a number of key financial statement balances. However this is still significantly later than the Government deadline of 30 July 2006 for clearance of financial information to Finance.

5.186 An effective process for the preparation of financial statements is imperative to meet accountability and reporting timeframes. In order to achieve further improvements in the timetable for 2007, enhancements are required with regard to:

- the financial reporting tool used to extract information from the General Ledger and produce financial statements. The current tool contributed to delays in the production of statements;
- further enhancement of the hard close process, including the bringing forward of preparation of non-time critical disclosures, such as Schedule of Commitments, accounting policies, pro-forma accounts, etc;
- improved accountability of service providers, including the timely delivery of documents to provide management assurance as to functions performed on Defence’s behalf (i.e. Business Reviews conducted by DMO for SME); and

- maintenance of a central record of adjustments to prior years (including reconciliations of adjustments, explanations for amendments and supporting evidence to support the processed adjustments).

Conclusion

5.187 2005–06 has seen an improvement in Defence's internal control environment and of its focus and ability to successfully address prior year issues, with Defence having successfully remediated a number of prior year audit qualifications. The Secretary of Defence, Mr Ric Smith AO PSM, who retired on 1 December 2006, deserves significant credit for his strong support for the long term financial management remediation programme. Without his leadership and commitment to this multi-year programme, and support from the Defence executive and personnel, it is unlikely that Defence would have made the progress it has.

5.188 Defence is now better placed going forward but there is still much to be done to improve the integrity of the internal control environment and systems in Defence. Given the number of outstanding issues to be resolved, Defence will need to continue to have a sustained focus on both ongoing remediation and the control processes in place over previously remediated items.

Defence Materiel Organisation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	7 600.9	N/A
Total expenses	7 592.1	N/A
Total assets	1 195.3	N/A
Total liabilities	1 080.8	N/A

5.189 As 2005–06 was the first year of operation of the Defence Materiel Organisation (DMO) as a separate prescribed agency under the *Financial Management and Accountability Act 1997*, comparative information is not available.

5.190 DMO's income predominantly comprises revenue from goods and services provided to Defence as part of their role of equipping and sustaining the Australian Defence Force through the acquisition of capital equipment assets and the subsequent sustainment of these assets ($7.4 billion). Within this amount and separate to the acquisition and sustainment service fee ($582.7 million in 2005–06), DMO recognises revenue from Defence when expenses are incurred (sustainment activities) or expenditure is made (acquisition activities) for Defence. Other components of income include activities performed on behalf of foreign Governments ($76.6 million), appropriations for outputs ($44.3 million) and resources received free of charge from Defence ($39.5 million).

5.191 Expenses primarily relate to the cost of goods sold to Defence ($4.7 billion), supply of goods and services ($2.5 billion), and employee expenses ($353.9 million).

5.192 Assets held by DMO at year-end included prepayments ($898.8 million) and receivables ($253.9 million). In support of industry development, the provision of necessary working capital for providers, the desire to secure more attractive prices and the establishment of partnerships, DMO frequently makes prepayments to its providers, in particular for capital items ($716.8 million in 2005–06). The two significant components of the receivable balance relate to appropriations ($167.2 million) and Goods and Services Tax receivable from the Australian Taxation Office ($72.3 million).

5.193 Liabilities predominantly comprise trade creditors ($740.5 million), employee provisions ($125.8 million), unexpended foreign trust activities amounts ($110.7 million) and unearned revenue from Defence for sustainment and acquisition activities ($98.9 million).

Audit results

Establishment of accounting positions

5.194 An initiative by DMO in 2005–06 was the establishment of 12 technical 'position papers' representing its assessment of particular accounting issues, including opening balances and revenue recognition. The position papers formed the basis of discussions between DMO and the ANAO, informed the two entities of the accounting policies and treatments that would be applied in the preparation of the 2005–06 financial statements, and were used by the ANAO to determine the nature, timing and extent of audit activities.

5.195 The development of these position papers and early discussion with the ANAO contributed to the successful completion of the financial statements and associated audit.

Summary of audit findings

5.196 As detailed within the results for Defence, DMO acts as the business process manager for a number of Defence items and systems, including: AUC; SDSS; and COMSARM (used for the management of EO inventory). Similarly, Defence acts as the business process manager for DMO for a number of items, including: ROMAN (the financial management information system); BORIS (the system used for budgeting and outcomes/output reporting); the Master Supplier Register (MSR); the Card Management System (CMS); PMKeyS (the personnel management system) and leave processing. Accordingly all prior year audit issues and any new matters relating to areas where DMO acts as a business process manager, together with other issues identified during the audit of DMO, are reported to DMO. Further, issues will be raised should weaknesses be identified in the management of bureau services received from Defence.

5.197 As at the conclusion of the interim audit there remained six significant and nine moderate audit issues. The issues related to: the financial management and reporting framework; cash management; SDSS; AUC; reporting of foreign exchange transactions; the management of bureau service arrangements for key financial systems and PMKeyS; and change management, business continuity and disaster recovery procedures for a key information system (COMSARM). During the final phase of the audit, the ANAO identified eight audit issues relating to: the reporting of commitments; practices relating to the identification and the embedded derivatives control framework; retention and filing of documentation; military workforce payments; SDSS Controls framework compliance security, change management and purchases. A summary of all outstanding issues is provided below.

Bureau service arrangements for key financial systems

5.198 As part of the 2005–06 audit, the ANAO reviewed a number of Defence IT systems provided to DMO via bureau service arrangements. The systems reviewed included: ROMAN; BORIS; MSR; CMS; and PMKeyS. While these systems are owned and operationally managed by Defence, their operation has a significant impact upon the internal controls of DMO for financial reporting purposes. The ANAO identified a number of breakdowns within the control environment for these systems. For further detail, reference should be made to the results reported for Defence.

5.199 DMO should establish appropriate management oversight and controls across the key financial systems which impact DMO's internal controls, to provide adequate internal management assurance that there is an appropriate level of rigour applied to key activities. Such activities include management reporting, business continuity management, configuration management, change management, quality assurance, fraud control, security, and transaction monitoring and review.

Reporting of commitments

5.200 Under acquisition and sustainment agreements with Defence, DMO is responsible for the management of significant contracts with external providers. As a consequence, DMO reported $11.2 billion of commitments payable. During the audit, significant weaknesses were identified in the reporting of commitments. It was noted that DMO had failed to implement adequate procedures to confirm the completeness and accuracy of its commitments and the appropriateness of the allocation of obligations between DMO and Defence. This affects the ability of DMO to accurately determine its current and future commitments.

The financial management and reporting framework

5.201 With the establishment of DMO as a separately prescribed agency on 1 July 2005, it was necessary for DMO to establish its own internal management and reporting framework. It was observed throughout the audit that such frameworks were not fully established at the date of prescription and continued to evolve throughout the first year of operation. As such, a number of weaknesses have been identified and observations made with regard to the management of appropriations, the DMO special account and maturity of reporting processes.

Cash management

5.202 During the interim audit, it was identified that DMO had opened and operated overseas bank accounts prior to obtaining appropriate delegate approval and spent monies from other bank accounts without a valid instrument transferring these bank accounts from Defence. A further issue noted during the course of the audit that, in the absence of an appropriate review process, DMO had inadvertently overdrawn one of its bank accounts. Weaknesses in such controls heighten the risk of a breach of the *Financial Management and Accountability Act 1997*, particularly should an appropriate agency banking agreement not exist.

Reporting of foreign exchange transactions

5.203 Consistent with prior year observations (when DMO was part of Defence), DMO use the date of posting a transaction to the general ledger, rather than the date of transaction, as the basis for calculating foreign exchange gains and losses. This deviates from the requirements of the Australian Accounting Standards.

5.204 It was also identified during the year that DMO had, for a number of projects, been artificially fixing the exchange rate within the general ledger and was therefore misstating the value of effected projects and the associated foreign exchange gains and losses. This also constituted a deviation from the Australian Accounting Standards. This practice was discontinued upon identification in April 2006, when a cumulative overstatement of $25 million ($23 million of which related to the Australian Light Armoured Vehicle Capability) was calculated for amounts capitalised, an equal amount of foreign exchange loss understatement, and therefore understatement of depreciation in the affected years. As the applicable assets have since been transferred to Defence, corrective action of adjusting for the affect on the Australian Light Armoured Vehicle Capability project, has now been processed by Defence.

Embedded derivatives control framework

5.205 Entities are required to identify and disclose reportable embedded derivatives. Embedded derivatives are components of contracts (which also include non-derivative components) that vary in a manner similar to a stand-alone derivative (e.g. a component of the price of a contract that refers to fluctuations in the price of labour in a country which is related to the provision of a particular good or service). The audit noted weaknesses within the control framework used by DMO to identify reportable embedded derivatives, to ensure appropriate disclosure.

SDSS Controls Framework

5.206 In July 2000, the SDSS Upgrade Project was approved with the aim of delivering a standard supply chain system across Defence, tighter controls over data integrity and transaction processing, and improved finance functions. The implementation of version 4 of SDSS was a central component of this project. Since the implementation of version 4, significant issues have been identified and difficulties encountered.

5.207 The SDSS Controls Framework was implemented by Defence to provide an endorsed, documented framework that sets out the control activities in and support of SDSS and the Defence Supply Chain Manual (DSCM). Its primary objectives were to enhance the operation, reliability and information quality of the supply chain processes and aimed to be fully inclusive of particular industry requirements. Weaknesses identified during the audit included: user awareness; inconsistent use of reports; and aspects of the quality assurance programme.

5.208 Weaknesses in, and non-compliant application of, this framework may result in the existence of invalid, inaccurate or inappropriately authorised transactions within SDSS, however, the ANAO notes the significant improvements resulting from this programme in 2005–06.

Inappropriate SDSS System Configurations

5.209 During the audit of the SDSS system it was identified that for a number of items the system was reporting negative levels of inventory and variances also existed for a number of items between the stock on hand and the number of serial or equipment numbers recorded within. Further, there were items reported as 'dues in' that could not be receipted to 'on-hand'. The existence of errors within SDSS will directly affect the ability to mange stock and accurate representation within the financial statements.

SDSS Controls Framework compliance: security

5.210 As part of the ongoing management of segregation of duties within SDSS, DMO has implemented a number of compensating controls until satisfactory implementation of the SDSS Controls Framework. It was noted during the course of the audit that there was a lack of user awareness of security profile conflicts and related responsibilities where the compensating controls were being implemented, the training programme and documentation of the compensating controls was not well developed and/or universally delivered, and there were weaknesses within the monitoring and review processes.

5.211 In the absence of appropriate segregation of duties, effective use of compensating controls is critical to ensuring the validity, accuracy and confidentiality of transactions and information. However, for the period of the 2005–06 audit it was assessed that compensating controls had not been sufficiently implemented for obtaining controls reliance.

SDSS Controls Framework compliance: change management

5.212 Change management policies, procedures and practices, including appropriate documentation and evidence of approvals are necessary to ensure that changes made to systems and applications are appropriately developed, authorised, tested and implemented. It was observed during the audit that DMO has not established change management procedures for implementing emergency changes to SDSS and a significant backlog of open problem reports exists.

5.213 Weaknesses in change management procedures may result in unauthorised or inappropriate changes to the SDSS application and/or data, impacting inventory and asset quantities and pricing. Further, the absence of review procedures over issues raised by users may result in necessary changes not being implemented.

SDSS Control Framework compliance: approval, delegation and management of purchases

5.214 During our review of purchases made within SDSS it was identified that staff could order purchases above their delegation limits, purchasing processes were not being completed in the required order and instances where purchases are incorrectly recorded and inappropriately classified as 'not in catalogue'. Inadequate controls surrounding purchases may result in transactions being made without appropriate approval.

COMSARM change management

5.215 Records of Defence's explosive ordnance (reported at $2.1 billion in the 2005–06 Defence financial statements) are retained on the COMSARM system, by DMO (the business process manager). As part of this role, DMO is responsible for change management within this system. Change management policies, procedures and practices, including appropriate documentation and evidence of approvals are necessary to ensure that changes made to systems and applications are appropriately developed, authorised, tested and implemented.

5.216 The ANAO identified weaknesses in the policies, procedures and practices adopted in managing change to the COMSARM system. The existence of weaknesses within change management controls, incorporating project governance, project management, standardised systems development, and documented business requirements and design and technical specifications increases the risk that changes to COMSARM (minor and major) do not operate as intended.

5.217 Further, a lack of defined and documented test strategies, test plans and testing output were identified during the course of the audit. This increases the risk of unexpected systems behaviour impacting data integrity, and that changes (minor and major) will be made without the appropriate levels of approval, testing and review.

COMSARM business continuity and disaster recovery procedures

5.218 The ANAO found that whilst formal business continuity and disaster recovery procedures have been established, the plans have not been formally tested in alignment with best practice, or on the periodic basis as required by Defence's own documented schedule.

5.219 The absence of regular review of business continuity and disaster recovery arrangements increases the risk that established procedures do not adequately and appropriately support critical business activities and procedures may become dated and may not be readily applied to continuity/disaster situations that arise.

Assets under construction control framework

5.220 DMO is responsible for the management of AUC for Defence. The value of AUC delivered to Defence in 2005–06 amounted to $3.2 billion. During the course of the 2005–06 audit, significant progress was noted in the control framework surrounding the management of AUC, including the establishment of a number of effective initiatives. Despite such progress, weaknesses were identified, including inconsistent application of key controls across the devolved control framework, adequacy of training and the level of management assurance that was obtained over controls and business processes. Weaknesses within this framework increase the risk of material misstatement in the financial statements and costing to Defence.

Untimely Rollout of AUC

5.221 The timely rollout of AUC is fundamental to accurately stating the balances of assets and AUC and enabling their appropriate management. The ANAO has previously identified that the rollout of AUC is not consistently performed in a timely manner. During 2005–06, improvements to this process were observed, however this matter is yet to be fully resolved with the implementation and execution of appropriate preventive and detective measures.

Allocation of work in progress accruals

5.222 As part of its annual reporting process, DMO operates an account (the work in progress accrual account) to manage transactions occurring after the closing of the general ledger. This account is maintained at a consolidated level, with the intention that transactions will be allocated to individual projects after the reporting process is complete. In 2005–06, significant amounts (approximately $400 million) remained within this account for a substantial part of the year, affecting the accuracy of the project ledger from which the DMO executive manage their business.

Financial Statement Preparation

5.223 DMO signed its financial statements on 9 October 2006. Separately, DMO did not meet the Government deadline of 30 July 2006 for clearance of material financial information to the Department of Finance and Administration. It is expected that significant inroads can be made into the timely provision of financial statement information by:

- applying the experiences of 2005–06;
- continued evolution of the control environment;
- further enhancement of the hard close process, in particular the inclusion of all significant balances and transactions; and
- additional focus being placed upon the retention and filing of documentation.

5.224 The following table provides a summary of the status of previously identified audit issues as well as new audit issues.

Ratings	Issues Outstanding at November 2005	Issues resolved prior to August 2006	New issues to August 2006	Issues Outstanding at August 2006^
A	6	2	2	6
B	3	-	6	9
Total	**9**	**2**	**8**	**15**

^ Issues outstanding at August 2006 are those at the completion of the interim phase of the audit. Issues identified in the final phase of the audit (through to October 2006) are currently being discussed with management and will be included in a later report.

Australian War Memorial

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	41.0	41.7
Total expenses	40.0	38.9
Total assets	777.6	742.1
Total liabilities	9.1	6.7

5.225 There were no significant movements in income and expenses.

5.226 The increase in assets was primarily attributed to the revaluation of land and buildings.

5.227 The increase in liabilities was primarily due to increase in revenues received in advance associated with $2.0 million in private sector donations for the post 1945 gallery construction works. Construction is expected to commence during 2006–07.

Audit results

Summary of audit findings

5.228 There were no significant or moderate audit issues noted during the 2005–06 audit.

Defence Housing Authority

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	857.3	715.4
Total expenses	756.7	577.5
Total assets	1 529.1	1 526.5
Total liabilities	473.0	503.0

5.229 Total income for DHA increased almost entirely due to a higher level of revenue recognised from inventory (property) sales.

5.230 Expenses increased in line with an increased cost of property in certain regions, combined with the recognition of an impairment expense due to the decline in the value of properties held in some regions of Australia.

5.231 There was no significant movement in assets in 2005–06.

5.232 The decrease in liabilities was due to the repayment of borrowings in 2005–06.

Audit results

Summary of audit findings

5.233 In 2005–06, the ANAO noted that DHA need to arrange the timely engagement of independent professional valuers in the assessment of impairment for DHA inventory, investment property and infrastructure.

5.234 The following table provides a summary of the status of previously reported audit issues as well as new issues raised since March 2006.

Ratings	Opening position at November 2005	Issues reported and resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Department of Veterans Affairs

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	334.7	326.3
Total expenses	323.0	315.7
Total assets	212.4	188.3
Total liabilities	99.2	93.2

5.235 The Department of Veterans' Affairs' (DVA) income increased as a result of additional appropriation funding for new budget measures including the new Curam IT integrated application framework project to meet future business needs and costs association with Gallipoli projects.

5.236 The increase in DVA's supplier expenses was primarily attributable to the payments for the development of the new IT projects.

5.237 DVA's assets increased as a result of an increase in appropriations receivable of which a significant portion has been quarantined for the potential upgrade of the IT systems over the next two years. Also contributing to the increase in assets was the capitalisation of intangible assets relating to new IT projects.

5.238 The increase in liabilities relates to DVA recognising revenue received in advance from the Department of Defence for the F111 Health Study Project. In addition, there was an increase in trade creditors at balance date as a result of two months of IT contractor expenses being accrued at year end, compared to one month in 2004–05.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	2.4	9.2
Total expenses	10 040.4	10 160.2
Total assets	849.6	133.2
Total liabilities	2 363.7	2 428.4

5.239 The decrease in DVA's administered income and the significant increase in administered assets was mainly attributable to the change in accounting treatment under AEIFRS requiring DVA's administered investment, the Australian War Memorial to be measured at fair value. Previously, administered investments were reported at their 1997 net asset value, adjusted for any capital injections or repayments.

5.240 The slight decrease in total expenses resulted from a reduction in the military compensation liability provision following a review, based on recent claims evidence, of future liabilities for compensation payments by the Australian Government Actuary. This decrease was partially offset by an increase in pension entitlement rates, despite a decrease in pension populations.

5.241 There was no significant movement in liabilities in 2005–06 which predominately related to military compensation provisions.

Audit results

Summary of audit findings

5.242 ANAO reported four moderate control weaknesses, relating to the treatment of public donations, continuing uncleared balances in the payroll clearing account, the need for further improvements to application access management and the DVA's disaster recovery plan at the interim phase of the audit. During the final phase of the audit the ANAO observed that DVA had addressed the payroll clearing account issue however the other issues had not been finalised.

5.243 During the 2005–06 financial year, DVA obtained legal advice that the services provided for British pensioners and other Dominion veterans are not covered by appropriation provided under Section 199 of the *Veterans' Entitlements Act 1986* (VEA), as British, Commonwealth and Allied (BCAL) veterans are not veterans for the purposes of the VEA. Consequently, these payments represent a contravention of section 83 of the Constitution and section 48 of the *Financial Management and Accountability Act 1997* (FMA).

5.244 As DVA has breached section 83 of the Constitution in making payments without valid appropriation support, a modified audit opinion with other statutory matters was issued outlining the background to this breach and the action in hand by DVA to regularise these payments without appropriation support.

5.245 The following table provides a summary of the status of previously reported audit issues as well as new issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	4	1	0	3
Legislative Breach	0	0	1	1
Total	**4**	**1**	**1**	**4**

Comments on non-material entities

5.246 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Australian Strategic Policy Institute Ltd, and the Military Superannuation and Benefits Scheme.

Australian Strategic Policy Institute Ltd

5.247 Australian Strategic Policy Institute Ltd (ASPI) utilise the services of consultants to prepare the financial statements, in order to supplement their in-house resources. The ANAO noted that key presentation and disclosure issues were overlooked during the preparation of the accounts, which subsequently required significant additional work by both ASPI and the ANAO. These issues were appropriately resolved prior to signing the financial statements.

Military Superannuation and Benefits Scheme

5.248 Section 1017D(1) of the *Corporations Act 2001* requires that members receive periodic statements regarding their entitlements in the Scheme. This requirement was breached, in that:

- 152 members did not receive periodic statements for one or more years since 2002. The trustees have addressed this matter through the Scheme's administrator and all affected members have now received their outstanding annual periodic statements; and
- 26 466 preserved benefit members were provided with a member statement for the year ended 30 June 2005 containing incorrect information regarding their preserved benefits. This error will be corrected in the member periodic statements for the year ended 30 June 2006.

5.249 Sections 1012B and 1012F of the *Corporations Act 2001* require that new members receive a Product Disclosure Statement within a specified timeframe. This requirement was breached, in that 105 new recruits to the Defence Force over the period 1 January 2006 to 31 March 2006 did not receive their new member kit, which includes the Scheme's Product Disclosure Statement, within the prescribed three months of entry. In addition, some 1 139 Defence Force Retirement and Death Benefits Scheme contributors did not receive a Product Disclosure Statement in the specified timeframe upon the receipt of their government co-contributions into the MSBS. This information has now been distributed to these members.

5.250 To reflect these breaches, the ANAO was required to issue a qualified opinion with regard to compliance with sections 1017D(1), 1012B and 1012F of the *Corporations Act 2001*. This is not a qualification on the financial statements of the MSBS.

Education, Science and Training Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Education, Science and Training	**Yes**	✓	09 Oct 06	
Anglo-Australian Telescope Board	No	✓	29 Sep 06	
ANU Enterprise Pty Ltd ☞31 December 2005	No	✓	07 Apr 06	
Australian Institute of Aboriginal and Torres Strait Islander Studies	No	✓	25 Sep 06	
Australian Institute of Marine Science	No	✓	28 Aug 06	◆
Australian National University ☞31 December 2005	No	✓	07 Apr 06	
Australian Nuclear Science and Technology Organisation	**Yes**	✓	17 Aug 06	
Australian Research Council	**Yes**	✓	31 Jul 06	
Australian Scientific Instruments Pty Ltd ☞31 December 2005	No	✓	07 Apr 06	
Commonwealth Scientific and Industrial Research Organisation	**Yes**	✓	24 Aug 06	
Food Science Australia	No	✓	26 Sep 06	
Science and Industry Endowment Fund	No	✓	31 Aug 06	
Teaching Australia – Australian Institute for Teaching and School Leadership Ltd	No	✓	26 Sep 06	
The Carrick Institute for Learning and Teaching in Higher Education Ltd	No	✓	31 Aug 06	

✓: audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
☞: financial year end date other than 30 June 2006

✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.251 The Australian Government takes a national leadership role in education, science and training. Through its portfolio entities, the Australian Government works in collaboration with various industries, State and Territory governments and a range of contracted service providers to provide policy, advice and services for the benefit of Australia.

5.252 The following comments relate only to material entities in the portfolio.

Department of Education, Science and Training

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	436.7	371.1
Total expenses	452.4	371.6
Total assets	132.3	133.2
Total liabilities	88.4	73.0

5.253 The increases in income and expenses of the Department of Education, Science and Training (DEST) mainly related to two items. DEST had its first full year of responsibility for the administration of student support schemes that were previously the responsibility of the former Department of Family and Community Services. Secondly, there was an increase in employee expenses arising from higher levels of staffing for new policy initiatives, increased salary rates and an updated actuarial assessment of the employee benefits provision. DEST also received $11 million in Government funding for activities previously performed by the former Australian National Training Authority (ANTA), which DEST assumed responsibility for from 1 July 2005.

5.254 The increase in liabilities related mainly to a higher employee benefits provision arising from the new actuarial assessment. Assets remained relatively stable over the two years.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	216.4	954.1
Total expenses	19 351.4	16 383.4
Total assets	13 261.0	12 981.1
Total liabilities	11 266.1	10 537.4

5.255 Total income was significantly lower during 2005–06, as in 2004–05 there had been reversals of previous write-downs of student loans amounting to $651 million.

5.256 Expenses increased due to a write-down of the carrying value of student loans following the application of new valuation requirements under AEIFRS. In addition, grants and personal benefits also increased. Grants increased as a result of new policy initiatives such as the Schools Infrastructure Programme, and general indexation of continuing programmes. Personal benefits increased because 2005–06 was the first full year that DEST had responsibility for the administration of student support schemes.

5.257 Although total assets only increased slightly between the two years, loans receivables and investments moved significantly as a result of the re-assessment of their values in accordance with the introduction of AEIFRS. Loan receivables under the Higher Education Loan Programme and other student loan schemes decreased by approximately $1 billion as these loans are now at fair value and not cost. Investments in statutory authorities and other Government bodies (mainly the Australian National University and CSIRO) increased by approximately $1.3 billion, when measured at fair value under AEIFRS. These investments were previously measured at their 1997 net assets value, adjusted for capital injections and repayments.

5.258 Liabilities increased because of a revised actuarial assessment of the provision for unfunded university superannuation and a higher amount of grants payable at year end commensurate with the higher grant expenses in 2005–06. These increases were partly offset by the full repayment during 2005–06 of bank loans previously used for the financing of certain student loans.

Audit results

Summary of audit findings

5.259 There were no moderate or significant audit findings noted during the 2005–06 audit.

Australian Nuclear Science and Technology Organisation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	161.8	165.5
Total expenses	176.8	179.1
Total assets	966.3	951.7
Total liabilities	222.6	210.2

5.260 No significant change occurred in the operations of the Australian Nuclear Science and Technology Organisation (AMSTO) in the 2005–06 financial year. Accordingly, income and expenses varied only slightly from 2004–05.

5.261 Construction is continuing on the Replacement Research Reactor and funding for this project is treated as an equity injection. The increase in assets predominantly relates to this project.

5.262 The increase in liabilities relates mainly to a rise in the provision for decommissioning costs associated with the decommissioning and remediation of ANSTO's facilities.

Audit results

Summary of significant audit findings

5.263 There were no moderate or significant audit findings noted during the 2005–06 audit.

Australian Research Council

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	15.0	13.6
Total expenses	14.3	12.8
Total assets	10.9	9.4
Total liabilities	3.1	2.3

5.264 The increase in income was a result of additional funding from Government for the administration of the National Competitive Grants Programme.

5.265 The movement in expenses is attributable to an increase in employee expenses due to a rise in salary rates and higher costs associated with the move to new premises at Brindabella Park.

5.266 Assets increased largely due to the acquisition of leasehold improvements, furniture and fittings for the new premises at Brindabella Park.

5.267 Liabilities increased as a result of recognising a lease incentive liability for a rent free period in the new office accommodation and an increase in employee provisions due to the rise in salary rates.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	7.3	5.2
Total expenses	573.5	500.4
Total assets	1.7	22.7
Total liabilities	230.0	222.0

5.268 There was no significant movement in total income.

5.269 The increase in expenses and liabilities was due to an increase in the volume of grants to State/Territory universities and other government organisations reflecting an increase in funding for the National Competitive Grants Programme under *Backing Australia's Ability* initiative.

5.270 Total assets decreased mainly due to the amount of cash held at the end of the financial year. Cash was drawn from the OPA just prior to 30 June 2005 as a large payment was due to be made shortly after year-end.

Audit results

Summary of audit findings

5.271 There were no moderate or significant audit issues noted during the 2005–06 audit.

Commonwealth Scientific and Industrial Research Organisation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	962.0	900.4
Total expenses	947.8	921.3
Total assets	1 559.0	1 535.6
Total liabilities	393.1	384.2

5.272 Income and expenses for the year increased mainly as a result of additional Government funding for CSIRO's Flagship Programs and the indexation of costs. Income also increased through gains arising from the sale of properties.

5.273 There were no significant movements in assets and liabilities.

Audit results

Summary of significant audit findings

5.274 There were no moderate or significant audit findings noted during the 2005–06 audit.

Comments on non-material entities

5.275 There were no moderate or significant audit issues impacting on non-material entities, except for the Australian Institute of Marine Science.

Australian Institute of Marine Science

5.276 During the final phase of the audit, the ANAO identified building and computer assets that were being depreciated over estimated useful lives that were shorter than the period for which the assets were being used, or were likely to be used, by the Institute. Notwithstanding that the financial statements were adjusted to reflect the appropriate depreciation amounts, the Institute was advised to review its policy for depreciating assets in order to have a more accurate reflection of the use of assets by the Institute.

Employment and Workplace Relations Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Employment and Workplace Relations	**Yes**	✓	18 Jul 06	
Australian Building and Construction Commissioner	No	✓	28 Aug 06	
Australian Fair Pay Commission Secretariat	No	✓	28 Aug 06	
Australian Industrial Registry	No	✓	27 Sep 06	◆
Coal Mining Industry (Long Service Leave Funding) Corporation	**Yes**	✓	22 Aug 06	
Comcare Australia	**Yes**	✓	11 Aug 06	
Equal Opportunity for Women in the Workplace	No	✓	23 Aug 06	
Indigenous Business Australia	**Yes**	✓	02 Nov 06	
- Bowen Basin Holdings Pty Ltd	No	✒	N/A	
- Bowen Basin Holdings Trust	No	✒	N/A	
- Bowen Basin Investment Pty Ltd	No	✒	N/A	
- Bowen Basin Investment Trust	No	✒	N/A	
- Centrum Insurance Brokers Pty Ltd	No	✓	22 Aug 06	
National Occupational Health and Safety Commission ☞ 31 December 2005	No	✓	10 Mar 06	
Office of Workplace Services	No	✓	28 Aug 06	
Seafarers' Safety, Rehabilitation and Compensation Authority	No	✓	28 Aug 06	
Stevedoring Industry Finance Committee ☞ 25 October 2005	No	✓	03 Apr 06	

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Portfolio overview

The aims of the Employment and Workplace Relations Portfolio are to:

- maximise the ability of working age Australians to participate actively in the workforce; and improve the productive performance of enterprises in Australia;
- give effect to the legislative framework for cooperative workplace relations;
- facilitate the operations of the Australian industrial relations system;
- reduce the human and financial costs of workplace injuries and disease;
- foster continuous improvement in occupational health and safety;
- inspire Australian employers to take action to improve equal opportunity outcomes for women in the workplace;
- assist and enhance Aboriginal and Torres Strait Islanders' economic advancement; and
- develop awareness, policy and strategies relating to occupational health and safety measures.

5.277 The following comments relate only to material entities in the portfolio.

Department of Employment and Workplace Relations

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	1 560.4	1 073.0
Total expenses	1 540.7	1 037.4
Total assets	305.6	200.7
Total liabilities	138.2	112.8

5.278 Income for DEWR increased as the full year effect of funding for service delivery payments to Centrelink for income support programme services took hold for the first time. There was also additional funding received for the implementation of the Work Choices legislation and Welfare to Work reforms.

5.279 There was a corresponding increase in expenses associated with the full year service delivery by Centrelink and costs associated with the implementation of the Work Choices and Welfare to Work reforms, including an additional 561 staff.

5.280 Asset growth was mainly attributable to an increase in the appropriation receivable balance reflecting funding received for non-cash items, together with increases in infrastructure, plant and equipment and intangibles resulting from the upgrade of IT infrastructure and additional internally developed software associated with new reforms.

5.281 The increase in liabilities reflected additional employee liabilities and increased supplier payables at balance date, for similar reasons to the increase in expenses.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	144.3	275.6
Total expenses	23 529.9	16 477.9
Total assets	770.8	723.8
Total liabilities	491.4	434.7

5.282 The decrease in income is mainly as a result of a decline in Commonwealth asset recoveries under the Special Employee Entitlements Scheme for Ansett Group Employees as the scheme draws to a close, with the majority of assets now realised. In addition, the prior year figure included the recognition of a write back in the provision for doubtful debts for personal benefits overpayments.

5.283 Expenses increased significantly due to the full year expenditure of personal benefits under the Welfare to Work Programs, Community Development Employment Projects programme and other services programmes compared to part year expenditure in the previous financial year.

5.284 Assets increased with the main driver being the restatement of the net asset position of Comcare as an administered investment with the introduction of AEIFRS reporting from 1 July 2005. Previously, administered investments were reported at their 1997 net asset value, adjusted for any capital injections or repayments.

5.285 The increase in liabilities is primarily due to additional accrued expenses for personal benefits payable at balance date.

Audit results

Summary of audit findings

5.286 There were no significant or moderate audit issues noted during the 2005–06 audit.

Coal Mining Industry (Long Service Leave Funding) Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	132.3	129.6
Total expenses	93.2	77.9
Total assets	505.7	419.0
Total liabilities	502.4	455.1

5.287 The movement in income was largely attributed to the positive performance of investments partially offset by a decrease in the industry levy contribution rate from 1 January 2006.

5.288 The increase in expenses was largely attributed to expenses required to increase the Corporation's provision for reimbursement of long service leave.

5.289 The increase in assets is due to the increased cash balances for investment purposes. Investments increased in value over the year in line with general stock market movements.

5.290 The increase in liabilities is mainly due to an increase in the Corporation's provisions for reimbursement of long service leave. The higher provision reflects the higher average wages and higher average leave balances as a result of positive conditions in the coal mining industry.

Audit results

Summary of audit findings

5.291 There were no significant or moderate audit issues noted during the 2005–06 audit.

Comcare

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	402.4	390.3
Total expenses	367.4	364.7
Total assets	2 335.7	1 449.2
Total liabilities	2 264.4	1 413.4

5.292 The increase in income was largely attributable to an increase in the premium rates to provide sufficient funding for payment of future claims.

5.293 As a result of the administrative arrangement orders and enactment of the *Asbestos-related Claims (Management of Commonwealth Liabilities) Act 2005*, Comcare assumed responsibility for the administration of common law claims against the Commonwealth for asbestos related diseases and ownership of related liabilities. The value of asbestos related liabilities transferred to Comcare was $756 million, whilst the workers' compensation liabilities increased by $56 million during the year.

5.294 Assets increased substantially and in line with the increase in the provision for workers' compensation and the recognition of common law asbestos claims. It reflects the funding from Government available to be drawn for estimated future compensation payments.

Summary of audit findings

5.295 There were no moderate or significant audit issues noted during the 2005–06 audit.

Indigenous Business Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	131.5	44.6
Total expenses	80.7	38.7
Total assets	636.4	625.8
Total liabilities	39.6	26.6

5.296 There are two main factors contributing to the increase in income and expenses. Firstly, this is first full year that IBA has managed the Indigenous Home Ownership and Business Development and Assistance programmes. The second factor is the impact of AEIFRS on the valuation of loans associated with these programmes. A higher return on a coal related investment due to strong coal prices during the year also contributed to an increase in income.

5.297 IBA's assets increased due to the revaluation of investment property and construction of a coal processing plant as part of a joint venture. This was largely offset by a significant reduction in the value of loans as a result of the reassessment of their values in accordance with the introduction of AEIFRS. These loans were previously valued at nominal value and are now at fair value.

5.298 The increase in liabilities was largely due to timing differences at year end. IBA received a grant prior to 30 June 2006 in respect of indigenous activities that are to be delivered in 2006–07. In addition IBA received a partial prepayment for the sale of an investment.

Audit results

Summary of audit findings

5.299 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.300 There were no moderate or significant audit issues impacting on non-material entities within the portfolio except for the Australian Industry Registry.

Australian Industrial Registry

5.301 Section 31 of the *Financial Management and Accountability Act 1997* provides a mechanism by which an entity may obtain appropriation authorising it to retain and spend amounts received from independent sources. Under section 31, the Finance Minister and the relevant Minister, or their representative, may enter into net appropriations agreements, commonly referred to as 'section 31 Agreements' which enables an entity to increase the available balance of specific annual appropriations by the amount of the eligible receipts. Each Section 31 specifies what receipts are to be eligible receipts.

5.302 During 2005-06, the Australian Industrial Registry (AIR) received $15 million in receipts for liquidated damages, interest and lease incentive under a property lease agreement that were initially reported in their departmental statements however they were not eligible receipts under the AIR's section 31 Agreement. As a result the receipts were reclassified and reported as administered income. It was recommended that the AIR amend its section 31 Agreement to allow for these types of receipt to be classified as eligible receipts in the AIR section 31 Agreement.

Environment and Heritage Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Environment and Heritage	**Yes**	✓	10 Aug 06	
Bureau of Meteorology	**Yes**	✓	5 Sep 06	
Director of National Parks	No	✓	13 Sep 06	◆
Great Barrier Reef Marine Park Authority	No	✓	25 Sep 06	
National Environment Protection Council Service Corporation	No	✓	4 Oct 06	
Natural Heritage Trust of Australia Account	No	✓	10 Aug 06	
Office of the Renewable Energy Regulator	No	✓	28 Aug 06	
Sydney Harbour Federation Trust	No	✓	18 Sep 06	

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Portfolio overview

5.303 The Environment and Heritage portfolio comprises the Department of the Environment and Heritage (DEH) and a number of statutory and non-statutory bodies. The Environment and Heritage Portfolio's role is to act to ensure that the government's environmental outcomes are met. DEH is the central policy and coordinating entity within the portfolio. The portfolio works towards achieving the following outcomes:

- Environment policy and sustainability, especially those aspects that are matters of national environmental significance, are protected and conserved;
- Australia benefits from meteorological and related science and services; and
- Australia's interests in Antarctica are advanced.

Department of the Environment and Heritage

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	376.0	333.0
Total expenses	405.2	348.9
Total assets	493.4	456.8
Total liabilities	257.2	267.8

5.304 The increase in income was largely attributable to 2005–06 being the first year that a full year of funding has been included for the operations of the Australian Greenhouse Office and the National Oceans Office, which were incorporated into DEH during 2004–05. In addition, appropriation revenue increased due to the funding of new initiatives, including the Australia–Antarctica Airlink, the Tasmanian Community Forest Agreements and the Regional Marine Planning Extension Program.

5.305 The increase in DEH's expenses for 2005–06 was due to several factors including an increase in employee, grant and supplier expenses. In addition to the finance costs associated with the make good provision for assets located on the Australian bases in Antarctica, employee expenses increased in line with an increase in the number of staff employed by DEH. Higher grant expenses were largely attributable to activities such as the Regional Marine Planning Extension Program. Suppliers expenses rose due to increases in the Department's activity including property lease payments, insurance expenses and professional services for information technology.

5.306 The increase in assets was primarily attributed to a revaluation that occurred in 2005–06, increasing the value of land and buildings and infrastructure, plant and equipment.

5.307 DEH reported, for the first time, the make good provision for assets located at the Australian bases in Antarctica. Restitution of the Antarctic bases is required under the Antarctic treaty and associated protocols. Restitution may involve the destruction, removal and disposal of the buildings and plant and equipment held at the bases. The accounting standards require the recognition of the make good as a provision in the financial statements. Using expert advice, DEH were able to determine a reliable estimate as the basis of the valuation of the provision. As required by the accounting standards, this provision is included in both 2004–05 and 2005–06 liability balances for the first time.

5.308 There was no significant movement in liabilities in 2005–06.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	21.0	14.9
Total expenses	501.1	425.0
Total assets	325.3	152.0
Total liabilities	20.1	58.5

5.309 The increase in income was primarily due to an increase in fees and charges from the administration of the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989* and the return of unspent grant monies from prior years.

5.310 Expenses increased predominantly due to an increase in funding for some existing grant programmes and the introduction of new programmes such as the Water Fund Program, Renewable Remote Power Generation Program and Cathedral Restoration Projects.

5.311 The increase in assets was due to the change in the value of administered investments in the Sydney Harbour Federation Trust and the Director of National Parks as a result of the transition to AEIFRS. These administered investments were previously valued at their 30 June 1997 net asset value, adjusted for capital injections and repayments.

5.312 Liabilities decreased due to a reduction in the number and amount of grants payable at balance date as a result of improvements in year end processing.

Audit results

Summary of audit findings

5.313 ANAO reported eleven moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed that DEH had resolved these weaknesses.

5.314 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	11	11	0	0
Total	**11**	**11**	**0**	**0**

Bureau of Meteorology

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	232.4	209.4
Total expenses	231.5	218.8
Total assets	329.5	311.2
Total liabilities	92.2	114.0

5.315 The increase in income was primarily due to an increase in cost recoverable activities, supplementary funding for depreciation expense, additional appropriation funding to assist with upgrades of radar systems, and the Tsunami warning system and replacement of field offices.

5.316 The increase in expenses is due to an increase in cost recoverable activities, associated support costs incurred to upgrade services for radar systems and the Tsunami warning system, higher employee costs from a rise in salary rates in accordance with the certified agreement and additional depreciation charges associated with asset revaluation and new property, plant and equipment and intangibles purchased during the year.

5.317 The increase in assets reflects an $18 million appropriation receivable at balance date which is linked to delays with some major projects, in particular, the upgrade of radar systems project and the Tsunami warning system project.

5.318 Liabilities reduced overall with the Minister for Finance and Administration determining that repayment of a $25 million payable to DEH, originating from an invalid section 32 agreement on establishment of the

Bureau would not be sought, as the money was spent for the purposes for which it was originally appropriated. Offsetting this reduction were increases in employee payables, due to an increase in salary rates in accordance with the certified agreement.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	15.8	18.9
Total expenses	0.0	0.0
Total assets	2.8	3.1
Total liabilities	0.0	0.0

5.319 The decrease in income was due to lower fees negotiated with airlines following unexpectedly high revenues in 2004–05.

5.320 There were no significant movements in expenses, assets and liabilities.

Audit results

Summary of audit findings

5.321 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.322 There were no moderate or significant audit issues impacting on non-material entities, except for the Director of National Parks.

Director of National Parks

5.323 In auditing the revenue and banking systems at Uluru-Kata Tjuta National Park, moderate weaknesses were detected in controls over the collection and banking of ticketing revenue. The Director of National Parks is in the process of improving the ticketing and banking controls. Given the weaknesses noted in the ticketing and banking system it was recommended to the Director of National Parks that a risk assessment over the completeness of revenue resulting from entry to the Park be undertaken. The Board of Management of the Park has approved an independent review of the pricing, entry fees and ticketing processes.

Families, Community Services and Indigenous Affairs Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Families, Community Services and Indigenous Affairs	**Yes**	✓	08 Sep 06	▲◆
- Aboriginals Benefit Account	No	✓	12 Sep 06	
- Aboriginal and Torres Straight Islander Land Fund Account	**Yes**	✓	06 Sep 06	
Aboriginal Hostels Ltd	No	✓	08 Sep 06	
Anindilyakwa Land Council	No	✓	12 Sep 06	
Australian Institute of Family Studies	No	✓	01 Sep 06	
Central Land Council	No	✓	18 Sep 06	
Indigenous Land Corporation	No	✓	08 Sep 06	
Northern Land Council	No	✓	31 Aug 06	
Tiwi Land Council	No	✓	14 Sep 06	
Torres Strait Regional Authority	No	✓	24 Nov 06	^
Wreck Bay Aboriginal Community Council	No	✏	N/a	

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^ : new moderate or significant issues not finalised at this time

Portfolio overview

5.324 The Families, Community Services and Indigenous Affairs (FaCSIA) portfolio's role is to provide policy advice, income support and assistance to families and their children, senior citizens and community groups. The portfolio also provides policy advice on issues affecting women in Australia through the Office for Women. In addition, as a result of Administrative Arrangement Orders occurring during 2005–06, FaCSIA is now responsible for coordinating a whole-of-government approach to programme and service delivery for Indigenous Australians, through the transfer of the Office of Indigenous Policy Coordination (OIPC) to the portfolio.

5.325 The following comments relate only to material entities in the portfolio.

Department of Families, Community Services and Indigenous Affairs

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	1 482.2	2 382.5
Total expenses	1 498.0	2 315.5
Total assets	222.0	210.31
Total liabilities	93.6	123.9

5.326 There has been a general reduction in overall income and expenditure balances as 2005–06 is the first full year since the transfer of the Child Support Agency (CSA) to the Department of Human Services (DHS) in February 2005. CSA income and expenditure for part of 2004–05 were included in the consolidated comparative balances. Income and expenses have also decreased due to a reduction in appropriation revenue, and the associated expense, for service delivery payments to Centrelink.

5.327 The increase in assets reflects the transfer of OIPC assets to FaCSIA. This was partially offset by a reduction in the receivable balance, as the prior year amount contained a significant one-off adjustment from Centrelink for under delivery of outputs resulting from an over estimation of customer numbers.

5.328 The decrease in liabilities reflects the reduction in the appropriation payable to the Government, which corresponds to the reduction in the Centrelink receivable balance mentioned above.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	199.7	499.3
Total expenses	43 101.4	48 901.6
Total assets	3 395.2	1 385.7
Total liabilities	3 693.4	3 181.7

5.329 Income has declined because CSA Child Support Revenue is no longer reported by FaCSIA. This is offset by the inclusion of the Aboriginal and Torres Straight Islander Land Fund Account (Land Fund) and the Aboriginals Benefit Account (ABA) investment revenue for the first time in 2005–06.

5.330 The transfer of employment and youth related personal benefits to the Department of Employment and Workplace Relations (DEWR) and the Department of Education, Science and Technology (DEST) in December 2004 resulted in a significant reduction in expenses for the current year.

5.331 The increase in assets is due primarily to the consolidation of long-term investments held by the Land Fund and ABA, and various investments in Commonwealth controlled entities, which reflects the transfer of OIPC to FaCSIA.

5.332 The increase in liabilities is driven by an increase in the Family Tax Benefit (FTB) provision arising from new budget measures introduced during 2005–06.

Audit results

Summary of audit findings

5.333 ANAO reported eight moderate control weaknesses in the interim phase of the audit. FaCSIA has appropriately actioned one of the eight audit issues identified. The ANAO was satisfied that reasonable progress was being made to resolve the outstanding issues relating to:

- the business continuity plan and disaster recovery plan;
- shortcomings in accounts payable processes;
- management of commitments;
- grants administration processes;

- correct classification of departmental/administered payments;
- unrecorded prior employment service; and
- corporate credit card purchases.

5.334 Rectification of the last two issues has been affected by the transfer of OIPC to FaCSIA. There were considerable difficulties experienced by FaCSIA in verifying and recording the information related to the transferred employees. In particular, there were discrepancies between the employee transfer signed pursuant to section 72 of the *Public Service Act 1999* and the actual number of employees transferred. In addition, the ANAO identified a high number of instances where OIPC corporate credit card payments were not authorised, increasing the risk of inappropriate or fraudulent transactions occurring.

Legislative breach

5.335 One legislative breach was noted during the final phase of the audit. Section 8 of the FMA Act requires an agency to enter into an agreement for an overdraft on its official accounts. FaCSIA held three bank accounts that periodically went into overdraft during the period 1 July 2005 to 30 June 2006. The Department did not have an agreement in place to operate an overdraft, consequently breaching section 8 of the FMA Act.

5.336 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	8	1	0	7
Legislative Breach	0	0	1	1
Total	**8**	**1**	**1**	**8**

Aboriginal and Torres Straight Islander Land Fund Account

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	355.4	607.2
Total expenses	298.7	509.2
Total assets	1574.9	1518.1
Total liabilities	0.0	0.0

5.337 Income has decreased significantly due a reduction in the number of investment bonds bought/sold in comparison to the prior year. This decline in investment activity of approximately 45 per cent corresponds with a similar reduction in total expenses (i.e. value of investments sold).

5.338 The increase in assets reflects the interest accrued on the investments held, and the reinvestment of gains realised on previous investments.

Summary of audit findings

5.339 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.340 There were no moderate or significant audit issues impacting on non-material entities within the portfolio, except for the Wreck Bay Aboriginal Community Council.

Wreck Bay Aboriginal Community Council

5.341 At the time of preparation of this Report, the Wreck Bay Aboriginal Community Council audit is not finalised for 2005–06. It is anticipated that a new Board of Directors will be appointed shortly. Once this occurs the Council will be in a position to approve the financial statements.

Finance and Administration Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Finance and Administration	**Yes**	✓	24 Aug 06	
Albury- Wodonga Corporation	No	✓	11 Sep 06	
Australian Electoral Commission	**Yes**	✓	09 Aug 06	
Australian Hearing Services	**Yes**	✓	18 Aug 06	
Australian Industry Development Corporation	**Yes**	✓	10 Oct 06	
Australian River Co	No	✓	30 Mar 06	
ASC Pty Ltd	**Yes**	✓	10 Aug 06	◆
Business Services Trust Account	No	✓	24 Aug 06	
Centrelink	**Yes**	✓	31 July 06	
CFM Pooled Superannuation Trust	No	✓	03 Oct 06	
CFM Australian Equities Fund	No	✓	03 Oct 06	
Commonwealth Grants Commission	No	✓	11 Sep 06	
Commonwealth Superannuation Administration (ComSuper)	No	✓	23 Aug 06	◆
Commonwealth Superannuation Scheme	No	A	30 Oct 06	◆
Commonwealth Superannuation Scheme Board	No	✓	30 Oct 06	
CSS/ PSS Pty Ltd	No	✓	03 Oct 06	
Department of Human Services	**Yes**	✓	23 Aug 06	▲
-CRS Australia	No	✓	08 Sep 06	
The Future Fund	**Yes**	✓	10 Aug 06	
Health Insurance Commission - 30 September 2005	**Yes**	✓	22 Dec 05	

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Health Services Australia	No	✓	21 Sep 06	
Medibank Private Ltd	**Yes**	✓	08 Sep 06	
Medicare Australia	**Yes**	✓	14 Aug 06	▲◆
PSS/CSS A Property Trust	No	✓	30 Oct 06	
PSS/CSS B Property Trust	No	✓	30 Oct 06	
Public Sector Superannuation Pooled Investment Trust	No	✓	30 Oct 06	
Public Sector Superannuation Scheme	No	A	30 Oct 06	◆
Public Sector Superannuation Scheme Board	No	✓	30 Oct 06	
PSS Accumulation Plan	No	✓	30 Oct 06	
Telstra Instalment Receipt Trustee Limited	No	✓	14 Aug 06	

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Portfolio overview

5.342 The Finance and Administration portfolio's principal responsibilities include:

- budget policy advice and processes, and review of governmental programmes;
- government financial accountability, governance and financial management frameworks including procurement policy and services;
- shareholder advice on Government Business Enterprises (GBEs) and commercial entities treated as GBEs;
- general policy guidelines for Australian Government statutory authorities;
- superannuation related to former and current members of Parliament and Australian Government employees;

- asset sales;
- strategic property management in Australia, including construction acquisition, ownership and disposal of real property;
- electoral matters;
- administration of Parliamentarians' entitlements;
- administration of the Australian Government's self-managed general insurance fund (Comcover);
- government on-line delivery and information technology and communications management; and
- evaluation and audit of indigenous programmes and operations.

5.343 The portfolio also includes the Department of Human Services (DHS), which was established on 26 October 2004 to improve the development, delivery and coordination of selected Government services.

5.344 The DHS consists of the core department, the Child Support Agency (CSA) and Commonwealth Rehabilitation Service Australia (CRS), with Australian Hearing Services, Centrelink, Medicare Australia and Health Services Australia (HSA) reporting through the Secretary of DHS to the Minister. The role of the core department is to direct, coordinate and broker improvements to service delivery. CRS assists people with an injury or a disability to get a job or return to work by providing individualised vocational rehabilitation, and helping employers to keep their workplaces safe. The CSA ensures that children of separated parents receive financial support from both parents.

5.345 The following comments relate to material entities in the portfolio.

Department of Finance and Administration

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	515.3	453.3
Total expenses	323.5	267.3
Total assets	1 864.2	1 617.1
Total liabilities	328.1	495.1

5.346 Income increased primarily as a result of additional government funding for the activities related to the planned Telstra (T3) sale and other asset divestments. Income also increased due to higher rental revenue following the annual rental review and gains related to increased investment property valuations. These increases were partially offset by a reduction in insurance premium revenue charged by Comcover due to an improved claims history.

5.347 The rise in expenses is primarily due to expenses associated with the planned Snowy Hydro and Telstra (T3) divestments, higher staffing levels and an increase in salary rates.

5.348 Asset revaluations performed as at 30 June 2006, as well as increases in undrawn appropriations, resulting from deferred expenditure on a number of property projects, notably the Christmas Island Immigration Reception and Processing Centre and the National Portrait Gallery, resulted in an increased asset balance. This increase was partially offset by a decrease in Comcover insurance premium receivables which occurred due to invoices for 2006–07 premiums being issued in July 2006, rather than June 2006 as had previously happened.

5.349 The reduction in liabilities is primarily attributed to there being no unearned revenue for Comcover's 2006–07 insurance premiums, as agencies were not invoiced prior to 30 June 2006 for the upcoming policy period. Comcover's outstanding claim liability has also decreased following an actuarial review. The transfer of the asbestos provision to the Department of Education and Workplace Relations (DEWR) portfolio also contributed to the decreased liability balance.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	1 498.1	1 450.3
Total expenses	5 366.6	5 091.5
Total assets	959.6	161.1
Total liabilities	66 918.7	68 969.8

5.350 The recognition of the Intra-Government Communications Network (ICON) as an asset first recognised coupled with a dividend declared by the Albury-Wodonga Corporation were the primary reasons for income increasing in 2005–06.

5.351 The movement in expenses can be attributed to an increase in superannuation expenses, associated with the Public Sector Superannuation Scheme, as well as the premium paid out on the settlement of the South Australian and Tasmanian rail superannuation schemes.

5.352 The increase in assets was primarily due to significant revaluation increases for investments in Medibank Private Ltd, the ASC Pty Ltd and the Albury-Wodonga Corporation, as well as an increase in the Official Public Account cash balance. The investment valuation increases were a result of changes required by AEIFRS, moving valuations to a fair value measurement basis. Previously these investments were recorded at their 1 July 1997 net asset value, adjusted for equity injections and repayments.

5.353 Liabilities decreased mainly as a result of a downward adjustment of $1.9 billion on the superannuation provision in 2005–06. The decrease was primarily related to the comparatively higher discount rate measured by reference to the 10 year bond rate as at year end. The Australian Government also paid out its liability in the South Australian and Tasmanian rail superannuation schemes at a cost of $521 million.

Audit results

Summary of audit findings

5.354 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Electoral Commission

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	109.4	184.2
Total expenses	104.4	177.8
Total assets	53.3	53.5
Total liabilities	27.3	29.4

5.355 The decrease in income and expenses was attributable to the absence of a full federal election event during 2005–06. There were no significant movements in assets and liabilities.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	0.1	1.5
Total expenses	0.0	42.1
Total assets	0.0	0.0
Total liabilities	0.0	0.0

5.356 The decrease in income and expenses was attributed to 2005–06 being a non-election period with minimal electoral fine revenue and no political party funding grants during the financial year.

Audit results

Summary of audit findings

5.357 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Hearing Services

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	139.2	136.7
Total expenses	126.3	125.5
Total assets	68.3	65.1
Total liabilities	52.9	50.1

5.358 There were no significant movements in the income, expenses, assets and liabilities of Australian Hearing Services in 2005–06.

Audit results

Summary of audit findings

5.359 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Industry Development Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	37.1	35.4
Total expenses	36.8	34.7
Total assets	467.7	551.4
Total liabilities	460.8	544.3

5.360 There was no significant movement in the income and expenses of the Australian Industry Development Corporation (AIDC) in 2005–06.

5.361 The reduction in assets and liabilities was a result of the wind down of AIDC's residual operations in accordance with the *AIDC Sale Act 1997* and the repayment of some treasury borrowings during the financial year.

Audit results

Summary of audit findings

5.362 There were no moderate or significant audit issues noted during the 2005–06 audit.

ASC Pty Ltd

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	260.9	229.3
Total expenses	234.6	208.7
Total assets	245.9	283.9
Total liabilities	131.8	176.6

5.363 The movement in income and expenses is largely attributable to work undertaken on the Air Warfare Destroyer programme and an increase in labour and overhead costs recoverable from Defence under Through Life Support (TLS).

5.364 The reduction in assets and liabilities is due primarily to the consumption of pre-paid TLS funds, which were previously recorded as cash and an offsetting unearned income liability.

Audit results

Summary of audit findings

5.365 In 2005–06, the ANAO recommended an improvement in relation to the process of tracking and documenting warranty-related expenditure, to enable ASC to accurately provide for these expenses in their financial statements.

5.366 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	2	2	1	1
Total	**2**	**2**	**1**	**1**

Centrelink

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	2 318.3	2 251.7
Total expenses	2 307.1	2 224.7
Total assets	799.6	712.2
Total liabilities	568.4	554.9

5.367 Income and expenses increased reflecting the increase in funding and the associated payments for the Drought Assistance, More Help for Families, and Assurance and Support programmes.

5.368 Investments in both new and existing software developments represented the majority of the asset increase.

5.369 The increase in liabilities was due to an increase in employee entitlements in accordance with the new Centrelink Certified Agreement.

Audit results

Summary of audit findings

5.370 The ANAO reported five moderate control weaknesses in the interim phase of the audit. During the final phase of the audit the ANAO observed Centrelink had made progress toward resolving these issues. They were as follows:

- calculation errors relating to several personal benefit payment types that could mean that a significant number of incorrect payments have occurred;
- delays in the resolution of differences between the financial management system and the system that reports personal benefit overpayments, increasing the risk of unresolvable differences;
- excessive or inappropriate access to the financial management information system that leaves Centrelink exposed to an increased risk of unauthorised changes to the system and data;
- lack of computer mainframe security monitoring that could lead to inappropriate changes being made to the mainframe environment if not adequately controlled; and
- inappropriate 'write access' to personal benefit payment files that increases the risk of data integrity issues and fraud through unauthorised changes to benefit payment data.

5.371 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	5	0	0	5
Total	**5**	**0**	**0**	**5**

Department of Human Services

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	487.7	271.5
Total expenses	476.9	269.6
Total assets	169.4	145.7
Total liabilities	107.0	94.2

5.372 The significant increases in income and expenses are largely attributable to the current year being the first full year of operation, with the prior year amounts reflecting operations starting on 26 October 2004 for CRS Australia and from 16 December 2004 for the Child Support Agency (CSA).

5.373 The increase in income is also due to an increase in appropriations to CSA and the core department, as well as an increase in services revenue for CRS Australia.

5.374 The asset balance has increased as a result of increases in the cash and receivables balances. This occurred due to spending being lower than anticipated.

5.375 The primary factors causing an increase in liabilities are increased employee provisions following general pay increases, an increase in the provision for makegood and increases in supplier payables due to accelerated expenses in the fourth quarter for CSA.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	1 121.5	533.3
Total expenses	1 050.7	519.9
Total assets	536.6	492.4
Total liabilities	469.5	372.2

5.376 Administered income and expenses consisted mainly of child support revenue, penalties and child support payments. All cash receipts and accruals of child support payments are also recognised as liabilities to be paid to eligible recipients.

5.377 The large increase in the current year income primarily relates to the full year of inclusion of CSA child support revenues as compared to the prior period which was only a partial year.

5.378 The increase in expenses also reflects the full year inclusion of CSA as compared to the prior year.

5.379 The net increase in administered assets is comprised of an increase in child support receivables, which was partially offset by a decrease in investments due to a change in accounting relating to the Health Insurance Commission as a result of its transition to an FMA Act body – Medicare Australia. The child support receivables increase was consistent with the increased volume of child support revenue collections, and a reduction in the provision for doubtful debts due to the application of more detailed analysis.

5.380 Accrued child support payables were the major component of administered liabilities and were an offset to child support receivables. The liability has increased due to a corresponding increase in child support receivables.

Audit results

Summary of audit findings

5.381 There were two moderate audit issues carried forward from the interim phase to the final audit phase.

5.382 The classification of data at CSA is based on individual clients according to a tiered system. Clients classified above 'In-Confidence' would typically include CSA and ATO staff, clients with known domestic violence issues, and high profile and witness protection clients. CSA's assessment is that some clients have been over-classified. The result of this over-classification is that a large number of staff are required to access client information classified above 'In-Confidence', in order to meet business processing requirements. Many of these staff do not have the required security clearances and therefore have inappropriate access to confidential client information. CSA has undertaken analysis and identified detailed actions to address these weaknesses over the short-term.

5.383 User access to transactions within the child support reporting system (CUBA) is restricted through the administration of a mainframe security management product. Users are assigned to groups that in turn have access to various functions within the CUBA application. However, a number of weaknesses relating to CUBA access management were identified that could result in financial loss, and reputational damage, to CSA and DHS. CSA is working toward addressing these weaknesses and implementing controls to strengthen access management and has identified detailed actions and a timetable to do this.

5.384 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	4	2	0	2
Total	**4**	**2**	**0**	**2**

The Future Fund

5.385 The Future Fund Management Agency and Board of Guardians (together, the 'Future Fund'), was established by legislation in April 2006. The primary objective of the Future Fund is to provide for the Australian Government's unfunded superannuation liabilities.

Financial results

Future Fund Management Agency results

Key financial measures for year	2006 $m
Total income	0.5
Total expenses	0.5
Total assets	3.8
Total liabilities	3.8

5.386 Income is largely comprised of expense reimbursements made from the earnings from investments.

5.387 The expenses reported consist of staffing costs, recruitment consultants' fees, contractors, legal fees and office lease and computer support costs.

5.388 The asset balance is primarily cash and term deposits held, while the liability balance represents cash received in advance for expense reimbursements.

Items administered on behalf of the Australian Government (Investment Fund)

Key financial measures for year	2006 $m
Total income	163.7
Total expenses	0.6
Total assets	18 163.1
Total liabilities	0.4

5.389 The income balance represents the interest earned on the cash at-call and term deposits.

5.390 Administered expenses consist of the remuneration of the members of the Board of Guardians and the reimbursement of agency expenses.

5.391 The Future Fund was funded by an $18 billion cash injection in May 2006. The asset balance includes investments in term deposits with the Reserve Bank of Australia, accrued interest on these deposits and cash at bank.

5.392 Administered liabilities are related to legal fees, bank charges and the accrued remuneration of the members of the Board of Guardians.

Audit results

Summary of audit findings

5.393 There were no audit issues noted during the 2005–06 audit.

Health Insurance Commission

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	149.3	593.5
Total expenses	147.3	588.6
Total assets	235.7	229.9
Total liabilities	111.8	112.0

5.394 The Health Insurance Commission was abolished on 30 September 2005 and the net assets were transferred to Medicare Australia on 1 October 2005. This came about as a result of the passing of the *Human Services Legislative Amendment Act 2005*.

5.395 The key financial measures above for 2005–06 relate to the period 1 July 2005 to 30 September 2005.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	5 340.2	19 712.5
Total expenses	5 287.2	19 620.2
Total assets	2 095.3	2 290.7
Total liabilities	2 040.6	2 239.9

5.396 The key financial measures above for 2005–06 relate to the period 1 July 2005 to 30 September 2005.

5.397 The financial reporting of administered items has been transferred to the Department of Health and Ageing (DoHA) and the Department of Veterans' Affairs (DVA).

Audit results

Summary of audit findings

5.398 The ANAO reported two moderate control weaknesses in the 2004–05 audit. During the special purpose audit that followed the abolishment of HIC as at 30 September 2005, the ANAO observed that HIC had made some progress in addressing these issues, however both of the findings remain outstanding. The progress on these findings was reviewed by the ANAO during the audit of Medicare Australia and the status is detailed in the commentary on Medicare Australia.

Medibank Private Pty Ltd

5.399 An unqualified audit report on Medibank Private Pty Ltd's financial statements was issued.

Medicare Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m
Total income	428.4
Total expenses	437.2
Total assets	262.4
Total liabilities	146.4

5.400 Medicare Australia was established as a prescribed agency on 1 October 2005 under the *Financial Management and Accountability Act 1997*. This was as a result of the passing of the *Human Services Legislative Amendment Act 2005*. The net assets from the former Health Insurance Commission were transferred to Medicare Australia on 1 October 2005.

5.401 The key financial measures above relate to the period 1 October 2005 to 30 June 2006.

5.402 Income primarily represents appropriations from government and revenues from services provided to other Australian Government agencies, in particular the Department of Health and Ageing (DoHA), the Department of Family and Community Services and Indigenous Affairs (FaCSIA) and the Western Australian state government.

5.403 Expenses consist of employee and supplier expenses and depreciation/ amortisation.

5.404 The most significant asset balances relate to appropriations receivable, internally developed computer software and leasehold improvements for Medicare offices at various locations throughout Australia.

5.405 The most significant liabilities relate to employee provisions and supplier payables.

Audit results

Summary of audit findings

5.406 The ANAO reported two moderate control weaknesses that existed in the former Health Insurance Commission and remained as issues in Medicare

Australia on 1 October 2005. During the audit, the ANAO observed that Medicare Australia had resolved these issues. One additional moderate control weakness was identified during the audit.

5.407 As part of the 2005–06 audit, the ANAO identified a weakness relating to the security administration of the Aurion human resource management system. Enhancement of the controls should reduce the risk of unauthorised, inaccurate and/or fraudulent transactions being processed.

5.408 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since 1 October 2005.

Ratings	Upon Transfer on 1 October 2005	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	2	2	1	1
Total	**2**	**2**	**1**	**1**

Comments on non-material entities

5.409 There were no moderate or significant audit issues impacting on non-material entities, with the exception of the Commonwealth Superannuation Administration (ComSuper), the Commonwealth Superannuation Scheme and Public Sector Superannuation Scheme.

Commonwealth Superannuation Administration

5.410 One moderate audit issue was identified during the 2005–06 audit of ComSuper, relating to procedures to ensure the accuracy of certain data supplied to the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation (PSS) Scheme. This data enables the schemes to calculate the interest to be applied to members' accounts when they exit the schemes. The schemes and ComSuper are working with an independent adviser to address this issue.

Commonwealth Superannuation Scheme

5.411 Section 1017D(3) of the *Corporations Act 2001* requires that exit statements be issued to members within 6 months of their exit from the scheme. This requirement was breached in that approximately 2 180 exit statements were not issued in this timeframe during the financial year ended

30 June 2006. To reflect this breach, the ANAO issued a qualified opinion with regard to compliance with section 1017D(3) of the *Corporations Act 2001*. This is not a qualification on the financial statements of the CSS.

5.412 A number of CSS members' benefits were incorrectly calculated, and members subsequently underpaid, during 2005–06, following a breakdown in the exit rate calculation process, as described in paragraph 5.410. The underpayments are in the process of being rectified by the CSS.

5.413 In addition, the CSS financial statement preparation process suffered significant delays in 2005–06. The primary reason for these delays was the staff turnover experienced in the finance area, and a lack of available suitably skilled resources to prepare the financial statements. Going forward, earlier planning for the financial statement preparation process needs to be undertaken to minimise the impact should the same situation re-occur.

Public Sector Superannuation Scheme

5.414 Section 1017D(3) of the *Corporations Act 2001* requires that exit statements be issued to members within 6 months of their exit from the scheme. This requirement was breached in that approximately 830 exit statements were not issued in this timeframe during the financial year ended 30 June 2006. To reflect this breach, the ANAO issued a qualified opinion with regard to compliance with section 1017D(3) of the *Corporations Act 2001*. This is not a qualification on the financial statements of the PSS.

5.415 A number of PSS members' benefits were incorrectly calculated, and members subsequently underpaid, during 2005–06, following a breakdown in the exit rate calculation process, as described in paragraph 5.410. The underpayments are in the process of being rectified by the PSS.

5.416 In addition, the PSS financial statement preparation process suffered significant delays in 2005–06. The primary reason for these delays was the staff turnover experienced in the finance area, and a lack of available suitably skilled resources to prepare the financial statements. Going forward, earlier planning for the financial statement preparation process needs to be undertaken to minimise the impact should the same situation re-occur.

Foreign Affairs Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Foreign Affairs and Trade	**Yes**	✓	05 Sep 06	
AusAID	**Yes**	✓	16 Aug 06	
Australia-Japan Foundation	No	✓	19 Sep 06	
Australian Centre for International Agricultural Research	No	✓	07 Sep 06	
Australian Secret Intelligence Service	No	✓	04 Sep 06	
Australian Trade Commission	**Yes**	✓	09 Aug 06	
Export Finance and Insurance Corporation	**Yes**	✓	18 Aug 06	

✓: audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
☞: financial year end date other than 30 June 2006
✎: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.417 The Foreign Affairs and Trade portfolio entities support Ministers in the conduct of Australia's foreign and trade policy, and pursue bilateral, regional and global strategies to further these policy objectives. The entities contribute to:

- international security;
- national economic and trade performance and global cooperation;
- development and promotion of domestic and international understanding of Australia's foreign and trade policy;
- supporting Australian business by providing market access and export advice and assistance;
- promoting trade, investment and a positive image of Australia internationally;
- providing assistance to developing countries to improve economic performance and governance;

- providing consular and passports services to Australians; and
- managing efficiently the Australian Government overseas owned estate.

5.418 The following comments relate only to material entities in the portfolio.

Department of Foreign Affairs and Trade

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	834.6	797.3
Total expenses	699.4	673.2
Total assets	2 054.0	1 932.9
Total liabilities	176.9	174.7

5.419 The increase in Department of Foreign Affairs and Trade's (DFAT) income was principally due to greater appropriation funding to cover costs associated with a higher demand for passport services and the implementation of the new biometrics passports. Sales of assets and gains resulting from a strong Australian Dollar have also contributed to an increase in total income.

5.420 DFAT's expenses increased due to the higher cost of materials and printing costs associated with the production of passports, increases in depreciation and amortisation charges associated with the acquisition of security related assets, and a general increase in expenses attributable to a greater level of activity, which is consistent with the increase in government funding for 2005–06.

5.421 The increase in DFAT's assets is principally the result of acquisitions and revaluations of land and buildings, an increase in appropriations receivables relating to the upgrade of security at overseas posts, and a build up of passport stocks to meet ongoing high demand.

5.422 There was no significant movement in DFAT's liabilities during 2005–06.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	347.3	231.3
Total expenses	247.0	266.1
Total assets	556.6	464.7
Total liabilities	186.9	126.6

5.423 The increase in administered income is mainly attributable to the impact of AEIFRS on the valuation of financial instruments held by the Export Finance and Insurance Corporation (EFIC) on behalf of the Australian Government. There was also an increase in income from passport fees due to higher demand for passports.

5.424 The reduction in administered expenses relates to costs incurred in 2004–05 relating to the Asian tsunami disaster and Australia's participation in the Aichi World Expo that did not reoccur in 2005–06.

5.425 The increase in administered assets is predominantly attributable to the increased value of the Australian Government's investment in the Australian Trade Commission and EFIC resulting from the reassessment of their values in accordance with the introduction of AEIFRS. These administered investments were previously measured at their 30 June 1997 net asset value, adjusted for capital injections and repayments.

Audit results

Summary of audit findings

5.426 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Agency for International Development

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	79.3	75.5
Total expenses	77.8	70.5
Total assets	25.7	21.3
Total liabilities	14.7	13.9

5.427 The increase in income of the Australian Agency for International Development (AusAID) was mainly attributable to additional funding from Government to support Australia's expanding overseas aid and assistance programs.

5.428 The increase in expenses was due mainly to an increase in staffing levels to support expanding aid roles and a rise in salary rates in accordance with the certified agreement.

5.429 The asset position improved due to a drawdown in late June 2006 to meet July payments and the capitalisation of internally developed software during the year.

5.430 The increase in liabilities reflected the increase in supplier payables and increased employee benefit accruals as at 30 June, in line with the increased staffing levels.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	0.1	2.6
Total expenses	1 587.3	2 136.2
Total assets	2 182.0	2 381.7
Total liabilities	1 266.9	1 440.5

5.431 Income declined due to a change in accounting treatment from 2004–05, for recording moneys returned to the official public account as lapsed from previous years' appropriations.

5.432 The decline in expenses and liabilities reflects the second year of the three year multilateral grants committed by Government in 2005–06 as opposed to previous years.

5.433 The decrease in assets was due to a reduction in the Government's multilateral commitments which were paid in the 2005–06 and the payment of $98 million against the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) grants against the $500 million over four years pledged by the Australian Government.

Audit results

Summary of audit findings

5.434 There were no significant or moderate audit issues noted during the 2005–06 audit.

Australian Trade Commission

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	204.4	187.4
Total expenses	206.7	192.6
Total assets	132.0	114.1
Total liabilities	39.6	38.7

5.435 The increase in Australian Trade Commission's (Austrade) income was principally the result of additional government funding for budget initiatives with a focus on boosting Australian export revenues. Austrade also experienced an increase in income relating to service fees essentially due to a higher demand for export advisory services from non-government entities.

5.436 The increase in expenses was attributable to several factors including a rise in salary rates in accordance with the certified agreement and an increase in supplier expenses associated with greater trade promotion and facilitation of trade activities.

5.437 The increase in assets was largely due to a revaluation of land and buildings and acquisition of new assets.

5.438 There has been no significant movement in Austrade's liabilities during 2005–06.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	0.7	0.7
Total expenses	145.5	131.3
Total assets	7.6	7.4
Total liabilities	2.0	2.1

5.439 The increase in administered expenses was primarily associated with an increase in the number of Export Market Development grants. Revenues, assets and liabilities all remained stable in comparison with those of the prior year.

Audit results

5.440 There were no moderate or significant audit issues noted during the 2005–06 audit.

Export Finance and Insurance Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	278.1	202.8
Total expenses	249.4	173.4
Total assets	2 871.2	3 074.5
Total liabilities	2 549.5	2 787.0

5.441 The increases to income and expenses are largely due to the impact of changes in the measurement of financial instruments as the result of the introduction of AEIFRS.

5.442 The reduction in assets was due to repayment of loan receivables. The funds from this were used to reduce EFIC's borrowings.

Audit results

Summary of audit findings

5.443 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.444 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Health and Ageing Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Health and Ageing	**Yes**	✓	14 Aug 06	▲
- Therapeutic Goods Administration	No	✓	14 Aug 06	
Aged Care Standards and Accreditation Agency Ltd	No	✓	08 Sep 06	
Alcohol Education and Rehabilitation Foundation Ltd	No	✓	01 Sep 06	
Australian Institute of Health and Welfare	No	✓	11 Sep 06	
Australian Radiation Protection and Nuclear Safety Agency	No	✓	08 Sep 06	
Food Standards Australia New Zealand	No	✓	21 Sep 06	◆
General Practice Education and Training Ltd	No	✓	18 Sep 06	
National Blood Authority	**Yes**	✓	04 Aug 06	◆
National Institute of Clinical Studies Ltd	No	✓	12 Sep 06	
Private Health Insurance Administration Council	No	✓	08 Sep 06	
Private Health Insurance Ombudsman	No	✓	13 Sep 06	
Professional Services Review	No	✓	21 Sep 06	

✓: audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
☞: financial year end date other than 30 June 2006
✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.445 The Health and Ageing portfolio works towards achieving a health care system that meets the health care and ageing needs of all Australians. The portfolio's services are delivered through the 18 outcomes set by the Australian Government. Each portfolio entity has developed performance information to determine effectiveness in achieving entity-specific outcomes.

5.446 In addition, the entities work towards the following whole-of-portfolio targets in relation to the health status of Australians:

- continued improvement in life expectancy for both males and females over time;
- further reductions in infant mortality rates over time;
- additional improvements in disability adjusted life expectancy over time;
- improved life expectancy, health expectancy and infant mortality rates for Aboriginal and Torres Strait Islanders, so that they are comparable with the general population; and
- improved life expectancy, health expectancy and infant mortality rates for low income Australians, so that they are comparable with the general population.

5.447 The following comments relate only to material entities in the portfolio.

Department of Health and Ageing

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	568.7	575.5
Total expenses	566.6	560.9
Total assets	211.7	163.4
Total liabilities	174.6	146.7

5.448 The decrease in the Department of Health and Ageing's (DoHA) income was largely due to the impact of 2005–06 being the first full year in which CRS Australia did not form part of DoHA. This decrease was partially offset by an increase in revenue from Government due to major new funding for Biosecurity and Emergency Response, Strengthening Cancer Care, Pharmaceutical Benefits Scheme (PBS), the Community Pharmacy Agreement, Indigenous Health and Prudential Regulation of Aged Care Facilities.

5.449 There was no significant movement in expenses in 2005–06.

5.450 DoHA's assets increased due to an increase in appropriations receivable which include undrawn operational appropriations and undrawn capital appropriation for the Aged Care New Payment System.

5.451 The increase in DoHA's liabilities as at 30 June 2006 is mainly related to the increased volume of departmental transactions in May and June 2006, and includes the return of appropriations to Finance, relating to activities associated with the Pharmaceutical Benefits Advisory Committee, and services provided by Medicare Australia.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	405.0	350.3
Total expenses	38 375.8	36 156.2
Total assets	373.5	432.9
Total liabilities	2 366.7	2 460.0

5.452 The increase in income principally relates to the recovery of medical indemnity competitive neutrality payments. The payments were received by the Australian Government to redress the competitive advantage gained by the United Group through its participation in the Australian Government's IBNR Indemnity Scheme.

5.453 Expenses increased, reflecting the Australian Government's continued spending priorities for improving Australia's health and ageing systems, including initiatives in the areas of the PBS, aged care and health care services.

5.454 The decrease in administered assets related to a significant reduction in the balance of prepayments as at 30 June 2006, and decreased cash balances held. This is offset in part by an increase in inventory holdings in relation to the National Medical Stockpile.

5.455 Liabilities decreased principally in relation to a reassessment of the Australian Government's liability for IBNR claims by the Australian Government Actuary.

Audit results

Summary of audit findings

5.456 The ANAO reported one moderate control weakness in the interim phase of the audit in relation to DoHA's business continuity plans and disaster recovery plans. DoHA had responded positively to the ANAO's observation and recommendations and is in the process of addressing the matters raised by the ANAO. The DoHA's Business Continuity Plans for Central Office and all State and Territory Offices were approved by the Secretary on 30 June 2006. However, whilst there was a Disaster Recovery Plan (DRP) for the mainframe, a DRP for other platforms, including midrange, internet and e-mail was yet to be developed. During the interim phase of the 2006–07 financial statements audit, the ANAO will review the work carried out by DoHA to finalise the business continuity plans and DoHA's progress in addressing the DRP for the midrange, internet and e-mail platforms.

5.457 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

National Blood Authority

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	8.1	8.0
Total expenses	7.6	6.2
Total assets	8.6	5.6
Total liabilities	4.9	2.9

5.458 There was no significant movement in income in 2005–06.

5.459 The increase in expenses is a combined result of an increase in staff numbers, a rise in salary rates in accordance with the certified agreement, an increase in supplier expenses driven by higher overall activity, and an increase in depreciation and amortisation relating to the purchase of additional software licenses to meet operational needs.

5.460 Assets increased largely due to amounts which have been received from States and Territories but which have not been utilised as they relate to projects due to commence in 2006–07.

5.461 Liabilities have also increased due to an increase in the unearned revenue balance related to funds received during the year that relate to projects which are anticipated to commence in 2006–07.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	217.1	220.1
Total expenses	566.1	523.0
Total assets	61.2	55.0
Total liabilities	79.6	35.6

5.462 The decrease in income was due to the contribution of blood product assets recognised as revenue in 2004–05 for which there was no similar transaction in 2005–06. This was largely offset by an increase in contributions from the States and Territories under the National Blood agreement.

5.463 The significant increase in expenses is due to additional funding to the Australian Red Cross Blood Service in accordance with the Deed of Agreement due to increased operational costs, plus an increase in the costs of blood related products. The comparative 2004–05 balance also includes an $18 million one time write down to the inventory of blood and blood products.

5.464 The increase in total assets is due to an increase in the receivable balance for amounts owing from States and Territories and GST receivables at year-end due to timing differences, and a slight increase in inventory to meet ongoing high demand.

5.465 The substantial increase in liabilities is attributed to higher supplier payables which is consistent with the rise in expenses. In addition, there has been an increase in unearned revenue which is consistent with the overall increase in contributions by States and Territories during the year.

Audit results

Summary of audit findings

5.466 ANAO reported one moderate control weakness in the 2005–06 audit related to the NBA's IT systems infrastructure. The NBA's current server is approaching system capacity and as such, should be improved in order to minimise the risk of data loss. The NBA is aware of this issue and is taking action to ensure that the IT system infrastructure has sufficient capacity for back up and recovery of data, and ongoing data needs.

5.467 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since August 2005.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	1	1	1	1
Total	**1**	**1**	**1**	**1**

Comments on non-material entities

5.468 There were no moderate or significant audit issues impacting on non-material entities within the portfolio except for Food Standards Australia New Zealand (FSANZ).

Food Standards Australia New Zealand

5.469 One moderate issue was noted regarding FSANZ's financial statement close process. The entity did not have in place an effective close process to ensure timely preparation of financial statements and the adoption of any necessary amendments identified by ANAO. FSANZ is in the process of addressing this issue.

Immigration and Multicultural Affairs Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Immigration and Multicultural Affairs	**Yes**	✓	25 Aug 06	▲
Migration Review Tribunal	No	✓	28 Sep 06	
Refugee Review Tribunal	No	✓	28 Sep 06	

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✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.470 The portfolio is responsible for managing the permanent and temporary entry of people to Australia, enforcing immigration law, successfully settling migrants and refugees and promoting the benefits of citizenship and cultural diversity. The portfolio has been assigned the following major areas of responsibility:

- arrangements for the settlement of migrants and humanitarian entrants, other than migrant child education;
- border (immigration) control;
- citizenship;
- multicultural affairs;
- entry, stay and departure arrangements for non-citizens; and
- ethnic affairs.

5.471 The Administrative Arrangement Order issued 27 January 2006 impacted on the structure of the Portfolio. In particular it resulted in the transfer of responsibility for Indigenous policy coordination and reconciliation to the renamed Department of Families, Community Services and Indigenous Affairs.

5.472 The following comments relate only to the material entity in the portfolio.

Department of Immigration and Multicultural Affairs

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	1 097.1	999.7
Total expenses	1 136.6	985.2
Total assets	483.6	539.2
Total liabilities	258.6	243.7

5.473 The significant increase in the Department of Immigration and Multicultural Affairs' (DIMA) income and expenses can be attributed to the reform and improvement programmes introduced as a response to the Palmer and Comrie reports. In addition, funding from the government increased to support new measures including enhancements to the movement alert list; skilled migration promotion; regional counter terrorism assistance and Biometrics for border control.

5.474 The decrease in assets was primarily due to the transfer of assets, including cash, land and buildings, infrastructure, plant & equipment and receivables, to the Department of Families, Community Services and Indigenous Affairs (FaCSIA) as a result of the Administrative Arrangement Order of 27 January 2006. This transfer was partially offset by an increase in intangible assets, with significant projects underway to improve the visa business systems.

5.475 In addition to the assets transferred to FaCSIA, DIMA have transferred the Office of Indigenous Policy Co-ordination employees and their associated leave provisions to FaCSIA. The impact of the transfer in liabilities to FaCSIA was offset by an increase in leave provisions due to a rise in salary rates in accordance with the certified agreement and an increase in finance lease liabilities related to a two year extension of the computer equipment finance lease.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	623.1	515.9
Total expenses	337.7	682.8
Total assets	29.0	1 767.7
Total liabilities	39.0	50.7

5.476 DIMA's administered income has increased as a result of visa application charge increases associated with the migration programme, working holiday makers, trade skills visas, and promotion of skilled migration. Other movements in income included the initial recognition of gains on revaluation of investments, associated with the change in accounting standards and an increase in interest revenue from Land Fund and ABA investments due mainly to DIMA administering the accounts for seven months in 2005–06 compared to three months in 2004–05.

5.477 Administered expenditures have decreased due to the transfer of grants previously administered by DIMA to a number of other Australian Government entities.

5.478 The majority of the movement in administered assets and liabilities is associated with the transfer of functions from DIMA to FaCSIA. Specifically, the transfer to FaCSIA due to the Administrative Arrangement Order of 27 January 2006 of the Aboriginal and Torres Strait Islander Land Fund Account (Land Fund) and the Aboriginal Benefits Account (ABA) has significantly decreased the assets held by DIMA. Liabilities have decreased due to the transfer of grants payable to FaCSIA.

Audit results

Summary of audit findings

5.479 No new significant audit findings were identified during the final phase of the 2005–06 DIMA financial statement audit. The interim phase identified two significant risk matters, 'Application Security for Visa Business Systems' and 'Application and General IT Environment Change Management', that were reported in Audit Report No.48 2005–*06 Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006*.

5.480 During 2005–06 DIMA have allocated significant resources, primarily through their 'Systems for People' programme, to addressing the shortfalls in their existing information systems. DIMA management have provided assurances to the ANAO that a component of these programmes will ultimately remove the risks identified by the ANAO. Specifically, processes implemented to date, including implementation of a new IT governance structure, release of a portfolio management tool and review of the Systems Development Life Cycle, have provided DIMA management with a level of assurance that the risks associated with the 'Application and General IT Environment Change Management' issue have been addressed for 2006–07.

5.481 Longer term initiatives have been developed by DIMA to cover the risks identified in the 'Application Security for Visa Business Systems' issue. Shorter term initiatives, such as the development of a security risk management plan and monitoring of highly privileged user accounts, have been implemented.

5.482 No assessment of these management initiatives has been undertaken by the ANAO, however these will be reviewed by the ANAO during the 2006–07 financial statement audit.

5.483 DIMA had four moderate issues outstanding at March 2006. These are still to be resolved and relate to:

- the alignment of DIMA's business needs and policies with the configuration of the Financial Management Information System;
- limitations in the visa reconciliation process, impacting on the effectiveness of the reconciliations as a key control in providing assurance over the completeness, validity and accuracy of the Visa Application Charge revenue;
- weaknesses in the implementation and execution of the control self assessment checklist, which provides assurance to DIMA management that internal controls are operating in relation to financial transactions; and
- the finalisation of a business continuity plan, including a disaster recovery plan is yet to be completed, increasing the risk that in the event of an accident or disaster, DIMA will be unable to appropriately manage and respond to disruption to critical business functions.

5.484 DIMA has advised the ANAO that appropriate action is underway to address these issues. The progress on these issues will also be examined by the ANAO during the 2006–07 financial statement audit.

5.485 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	2	0	0	2
B	4	0	0	4
Total	**6**	**0**	**0**	**6**

Comments on non-material entities

5.486 There were no moderate or significant audit issues impacting on non-material entities.

Industry, Tourism and Resources Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Industry, Tourism & Resources	**Yes**	✓	18 Aug 06	▲
CVC Reef Limited	No	✓	30 Oct 06	
Geoscience Australia	No	✓	18 Aug 06	
IIF Bioventures Pty Limited	No	✑	N/A	
IIF (CM) Investments Pty Limited	No	✑	N/A	
IIF Foundations Pty Limited	No	✑	N/A	
IIF Investments Pty Limited	No	✑	N/A	
IIF Newport Pty Limited	No	✑	N/A	
IP Australia	No	✓	17 Aug 06	
National Offshore Petroleum Safety Authority	No	✓	31 Aug 06	
Tourism Australia	**Yes**	✓	16 Aug 06	
Wind Corporation Australia Limited	No	✓	30 Oct 06	

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◆: new moderate or significant issues noted

Portfolio overview

5.487 The Department of Industry, Tourism and Resources (DITR) is the central policy and coordination agency of the portfolio.

5.488 DITR develops and implements a range of industry policies and programmes and delivers business services that build on the three key drivers of economic growth of innovation, investment and international competitiveness.

5.489 These policies and programmes are designed to increase the international competitiveness of Australian manufacturing, resources and services industries, develop Australia's innovation and technology capabilities and infrastructure, and facilitate an increase in the level of foreign investment in Australia.

5.490 The Department works in close partnership with the industries, and with a range of other stakeholders, to achieve these goals. The other material entity in the portfolio is Tourism Australia.

5.491 The main objective of Tourism Australia is to influence overseas and domestic travellers to travel throughout Australia, to help foster sustainable tourism in Australia and to increase the economic benefits to Australia from tourism.

5.492 The following comments relate only to material entities in the portfolio.

Department of Industry, Tourism & Resources

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	305.1	310.5
Total expenses	299.5	307.9
Total assets	114.0	103.3
Total liabilities	38.6	33.5

5.493 The income and expenses totals for the year were broadly consistent with the prior year with a fall on a comparative basis as there was a one-off $16 million payment to Tourism Australia in the prior year.

5.494 The increase in assets is primarily due to the capitalisation of fitout improvements associated with office accommodation. Liabilities increased due to unearned revenue associated with advances received for the energy special account and an increase in employee leave provisions associated with an increase in salaries.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	1 051.0	897.8
Total expenses	1 868.2	1 496.0
Total assets	534.5	578.1
Total liabilities	373.9	283.8

5.495 Administered income increased mainly due to an increase in petroleum royalties. Petroleum royalties are dependent on production levels and global oil prices, both of which increased in 2005–06.

5.496 The increase in administered expenses is largely due to an increase in grants expenses of $347.6 million, with the major increases related to Cyclone Larry, Hismelt, Snowy Hydro Limited tax compensation, and Ford Australia. In addition, there was an increase in petroleum royalties. The increase in administered expenses was partially offset by a decrease in subsidies, primarily related to import duty credits issued under the Automotive Competitiveness and Investment Scheme. The decrease in import credits issued was mainly due to lower production of locally produced motor vehicles.

5.497 The decrease in assets was mainly due to a decrease in receivables, partially offset by an increase in investments. The decrease in receivables followed the adoption of *AASB 139 Financial Instruments – Recognition and Measurement* which required the discounting of certain loans. The discount amount will gradually unwind and reduce over the remaining term of these loans. The increase in investments related to Tourism Australian and Snowy Hydro Limited as a result of a change of valuation method under AEIFRS. Previously these investments were recorded at their 1 July 1997 net asset value, adjusted for equity injections and repayments.

5.498 Liabilities increased primarily due to an increase in grants and subsidies payable. The increase in grants payable was primarily attributed to an accrual for Snowy Hydro Limited for tax income compensation to the Victorian and New South Wales State governments and an accrual relating to Cyclone Larry payments. The increase in subsidies was attributed to a timing difference where more credits were issued to automotive producers than redeemed towards year end.

Audit results

Summary of audit findings

5.499 The ANAO reported two moderate control weaknesses related to business continuity management and computer systems development life cycle methodology in the interim phase of the audit. During the final phase of the audit, the ANAO observed that DITR had responded to the findings with appropriate remediation plans. These issues will be followed up in the 2006–07 audit. No new issues were identified in the final phase of the audit.

5.500 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	2	0	0	2
Total	**2**	**0**	**0**	**2**

Tourism Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	167.9	169.8
Total expenses	164.6	165.6
Total assets	39.5	34.2
Total liabilities	22.5	20.6

5.501 There were no significant movements in income or expenses.

5.502 The movement in assets is largely due to larger cash holdings due to the deferral of certain expenditure to next financial year.

5.503 The increase in Tourism Australia's liabilities was primarily due to the timing of payments to suppliers arising from a larger number of activities at year end compared to the previous year.

Audit results

Summary of audit findings

5.504 There were no significant issues noted during the year.

Comments on non-material entities

5.505 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Parliamentary Departments

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Parliamentary Services	**Yes**	✓	23 Aug 06	
Department of the House of Representatives	No	✓	31 Aug 06	
Department of the Senate	No	✓	30 Aug 06	

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Parliamentary Departments overview

5.506 There are three parliamentary departments supporting the Australian Parliament:

- Department of Parliamentary Services (DPS);
- Department of the House of Representatives (HoR); and
- Department of the Senate (DoS).

5.507 DPS is responsible for ensuring the occupants of Parliament House are supported by integrated services and facilities, that Parliament functions effectively, and that its work and building are accessible to the public.

5.508 The main function of DoS is the effective and efficient provision of services to support the Senate, its committees and Senators. DoS also conduct education programs and prepare publications to promote an understanding of the Senate and of parliamentary processes.

5.509 HoR provides services to support the efficient conduct of the House of Representatives, its committees and certain joint committees, as well as a range of services for Members in Parliament House. HoR also undertakes activities to promote the work of the House in the community and is responsible for the conduct of the Parliament's international and regional relations.

5.510 The following comments relate only to material entities in the portfolio.

Department of Parliamentary Services

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	119.6	120.1
Total expenses	118.7	119.4
Total assets	106.7	106.4
Total liabilities	19.8	21.3

5.511 There has been no significant movement in income during 2005–06.

5.512 Overall, departmental expenses have decreased marginally. Increases in staff costs, associated with the certified agreement entitlements, have been offset by a decrease in depreciation and amortisation expense. The decrease in depreciation and amortisation is attributable to the use of the acceleration method of depreciation for IT Assets, on advice from the Australian Valuation Office.

5.513 There has been no significant movement in DPS's departmental assets during 2005–06. The marginal reduction in liabilities is attributed to the completion of IT projects, where revenue was received in advance, and the expiration of leases.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	0.0	0.3
Total expenses	45.2	62.7
Total assets	1 728.0	1 385.6
Total liabilities	0.1	0.5

5.514 Administered income received during 2005–06 is reflective of normal business operations. The income reported in 2004–05 was largely attributed to the reporting of artwork, identified during the stocktake process that had not been previously recognised.

5.515 The administered expenses decrease is due to a one-off expense reported in 2004–05 for the write down in the value of a significant piece of artwork.

5.516 The increase in administered assets is largely due to an increment in the value of land and buildings resulting from the asset revaluation process undertaken during 2005–06.

5.517 The small decrease in administered liabilities is due to a decrease in the accruals for Goods and Services Tax due to timing differences.

Audit results

Summary of audit findings

5.518 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.519 There were no moderate or significant audit issues identified in 2005–06 impacting on non-material entities.

Prime Minister and Cabinet Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Prime Minister and Cabinet	**Yes**	✓	31 Aug 06	◆
Australian National Audit Office	No	✓	25 Jul 06	
Australian Public Service Commission	No	✓	24 Aug 06	
Commonwealth Ombudsman Office	No	✓	08 Sep 06	
National Australia Day Council Limited	No	✓	13 Sep 06	
National Water Commission	No	✓	07 Aug 06	
Office of National Assessments	No	✓	19 Sep 06	
Office of the Inspector-General of Intelligence and Security	No	✓	14 Sep 06	
Office of the Official Secretary to the Governor-General	No	✓	04 Oct 06	

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Portfolio overview

5.520 The Department of the Prime Minister and Cabinet (PM&C) and the other eight entities in the Prime Minister and Cabinet portfolio produce a range of outputs directed at achieving well-coordinated, efficient and accountable public administration, supported by a values-based Australian Public Service.

5.521 The following comments relate to PM&C, the only material entity in the portfolio.

Department of the Prime Minister and Cabinet

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	99.6	63.2
Total expenses	80.9	62.3
Total assets	65.8	25.7
Total liabilities	20.7	16.9

5.522 Income and expenses of PM&C increased significantly due mainly to the activities of the Asia Pacific Economic Cooperation (APEC) 2007 taskforce. Although APEC revenue from Government was $34 million for the year, spending on APEC was much lower than expected, at $15 million. This resulted from difficulties in estimating in advance the actual timing of expenses, a significant proportion of which are now expected to be incurred in 2006–07 and 2007–08. Expenses also increased as a result of additional funding of approximately $1 million for research grants into counter-terrorism technology.

5.523 The large increase in assets related mainly to unspent funds held as cash and receivables for the purposes of APEC and asset purchases in preparation for the move to new office accommodation in 2006–07. In addition, infrastructure, plant and equipment assets increased through the acquisition of new assets for APEC and work-in-progress leasehold improvements for the new accommodation.

5.524 The increase in liabilities mostly related to supplier payables and included accrued expenses for APEC that did not apply in the previous year.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	7.1	5.0
Total expenses	14.4	27.3
Total assets	33.3	34.9
Total liabilities	14.4	13.5

5.525 Income primarily represents media commissions received. The annual amount of commission varies according to the volume of Australian Government advertising.

5.526 Expenses decreased significantly in 2005–06 as there had been a one-off grant of $10 million to the Australian and New Zealand School of Government in 2004–05.

5.527 Assets and liabilities remained relatively stable in 2005–06.

Audit results

Summary of audit findings

5.528 The ANAO raised one moderate control issue during the final phase of the audit.

5.529 PM&C experienced difficulties in preparing its appropriation notes for the 2005–06 financial statements. Following audit representations on the matter, PM&C undertook an extensive review of its appropriation records and identified inadequacies in the recording and reporting of appropriations going back a number of years. The review delayed the finalisation of the financial statements, but enabled the appropriation notes for 2005–06 to be properly prepared. PM&C advised that it has implemented revised processes for the recording and reporting of appropriations for 2006–07. The ANAO will review these processes during the 2006–07 audit.

5.530 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	0	0	1	1
Total	**0**	**0**	**1**	**1**

Comments on non-material entities

5.531 There were no moderate or significant audit issues impacting on non-material entities within the portfolio.

Transport and Regional Services Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of Transport and Regional Services	**Yes**	A	21 Aug 06	◆
Airservices Australia	**Yes**	✓	30 Aug 06	
Australian Maritime College ☞ 31 December 2005	No	✓	31 Mar 06	
A. M. C. Search Limited ☞ 31 December 2005	No	✓	31 Mar 06	
Australian Maritime Safety Authority	No	✓	28 Sep 06	
Australian Rail Track Corporation	**Yes**	✓	31 Aug 06	
Civil Aviation Safety Authority	**Yes**	✓	24 Aug 06	
Maritime Industry Finance Company Ltd	No	✓	14 Nov 06	
National Capital Authority	**Yes**	✓	28 Jul 06	
National Transport Commission	No	✓	07 Sep 06	

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◆: new moderate or significant issues noted

Portfolio overview

5.532 The Transport and Regional Services portfolio delivers transport and regional development programmes and services to assist the Minister for Transport and Regional Services to achieve the Government's desired outcomes for the benefit of the Australian community.

5.533 Transportation is an important element in Australia's economic prosperity and in ensuring all Australians have access to a high standard of general services and facilities that are safer, more effective and efficient.

5.534 The government, working in partnership with regional communities, provides services specifically for communities in regional, rural and remote Australia to foster the social and economic capacity of regional Australia and ensure that regional people share in the benefits of Australia's economic success.

5.535 The portfolio's responsibilities also recognise that local government, as well as other levels of government in Australia's states and territories, play an important role in supporting services, amenities and lifestyles of regional, rural and remote communities.

5.536 The following comments relate only to material entities in the portfolio.

Department of Transport and Regional Services

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	223.5	235.1
Total expenses	223.2	188.6
Total assets	168.9	140.7
Total liabilities	51.1	74.9

5.537 The decrease in income is primarily attributed to decreases in amounts which are considered one-off in nature, for example the $31.6 million write-back of asbestos related provision in the prior year, partially offset by additional funding from Government to meet the expansion of the Department's operations, in particular the Office of Transport Security (OTS).

5.538 The increased expenses are due to a significant increase in the number of employees, particularly OTS staff, over the year as well as a rise in salary rates in accordance with the certified agreement. Suppliers' expenses also increased due to the increased activity flowing from the expansion of operations.

5.539 Assets increased due to an increase in appropriations receivable relating to additional aviation security funding reviewed late in the year, as well as the purchase of fixed assets and capitalisation of internally developed software.

5.540 The decrease in liabilities was due to the transfer of the $31.8 million Asbestos Related Disease Claims Provision to the Department of Employment and Workplace Relations on 1 July 2005, partially offset by a minor increase in payables and employee provisions for similar reasons to the increase in expenses.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	322.5	286.3
Total expenses	4 066.9	3 869.6
Total assets	4 612.9	1 006.9
Total liabilities	25.2	70.6

5.541 The increase in administered income was primarily due to the initial recognition of the Sir Sydney Nolan art collection. The collection was bequeathed to the Australian Government on the artist's death and is administered by the Department on behalf of the Australian Government.

5.542 Expenses increased primarily due to an increase in grants, particularly in relation to grants for rail transport; local government assistance and air transport.

5.543 The significant increase in administered assets is primarily attributable to a one-off $2.1 billion prepayment of grant monies to the States and Territories for AusLink projects that are to be undertaken in the 2006–07 and subsequent financial years. In addition, there was a $1.4 billion increase in the value of administered investments, following the adoption of AEIFRS, that requires, from 1 July 2005, investments to be valued at their net asset value at balance date rather than the prior year basis of the 1 July 1997 net asset value, adjusted for subsequent capital injections and repayments.

5.544 Administered liabilities have decreased as a result of a reduced amount of grants payable at year end, reflecting the significant current year prepayment.

Audit results

Summary of audit findings

5.545 ANAO reported two moderate control weaknesses relating to monitoring of programme legislative compliance and IT security access management in the interim phase of the audit. During the final phase of the audit the ANAO observed that DOTARS had resolved both of these weaknesses.

5.546 One new moderate issue was identified in the final phase of the audit. The review of the regional partnerships grant acquittal process identified several instances where grant payments were made without the grant recipient having provided all acquittal documentation required by the funding agreement.

5.547 The Department was issued with an unqualified audit report with additional statutory disclosure due to a contravention of section 48 of the *Financial Management and Accountability Act 1997*. This breach was identified by the ANAO's performance audit of the Roads to Recovery grant programme completed on 1 March 2006.[65] This audit identified that, although validly made, $1.8m of the $249.9m total grant payments disclosed as being made to the States from the *Roads to Recovery Act 2000* Special Appropriation in the 2004–05 financial statements were ineligible payments under this Special Appropriation. However, at the time the payments were made, there was an alternative available appropriation under the *Appropriation Act (No 1 & 3) 2004–05* for these administered expenses. Although this was a valid available alternative appropriation to support the payments, the Department contravened section 48 of the *Financial Management and Accountability Act 1997*. While the payments made were the amounts intended for the five Local Government Authorities that received them as specified in the notices signed by the Minister, the Department did not, at that time, have arrangements in place to identify the administrative oversight that caused these payments to be recorded against the Roads to Recovery Special Appropriation.

5.548 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

[65] refer Roads to Recovery Audit Report No 31 2005–06

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	2	2	1	1
Legislative breach	0	0	1	1
Total	**2**	**2**	**2**	**2**

Airservices Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	683.5	663.8
Total expenses	547.8	575.7
Total assets	706.8	590.7
Total liabilities	388.8	382.0

5.549 The increase in income is mainly attributable to higher airways revenue reflecting increased activity across both the international and domestic sectors and the full year impact of higher overall pricing levels since 1 January 2005.

5.550 The decrease in expenses was due to several factors including significant one-off expenses recorded in the prior year, such as the booking of provisions for eligible termination payments relating to restructuring initiatives. In addition, depreciation expense was lower due to the extension of the useful lives of assets as part of a revaluation conducted in June 2005.

5.551 The increase in assets is mainly attributable to significant capital investment in new technology projects, coupled with an increase in the value of the defined benefit superannuation fund asset following significant investment returns being earned by the fund during the year.

5.552 There was no significant movement in liabilities in 2005–06.

Audit results

Summary of audit findings

5.553 There were no significant or moderate audit issues noted during the 2005–06 audit.

5.554 Airservices Australia was issued with an unqualfied audit report with additional statutory disclosure. This was in relation to the consolidated entity accounts including unaudited accounts of a subsidiary which was immaterial to the group.

Australian Rail Track Corporation Ltd

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	786.0	516.1
Total expenses	437.4	342.1
Total assets	1 616.3	1 217.5
Total liabilities	180.6	132.7

5.555 The growth in the company's income is largely attributable to a $170 million increase in unconditional special government grants received in 2005–06 compared to the prior year. The growth is also attributable to a $44.1 million increase in Access revenue and $66.7 million increase in Country Regional Network revenue due to the prior year numbers reflecting only a ten month period, plus a substantial increase in the level of activities and projects.

5.556 The increase in expenses is largely caused by increased employee expenses ($32.6 million) due to an increase in the number of employees and increased maintenance costs ($46.8 million) associated with the company's extensive program in relation to the interstate rail infrastructure to achieve performance targets.

5.557 The increase in assets is due to investment of the special government grant received in late June 2006 and the significant increased investment in infrastructure across the entire rail network.

5.558 Liabilities have increased due to several factors including increases to payables and employee provisions, as a result of expanded business operations, grant revenue being deferred to future periods to match specific projects or asset purchases, and unrealised investment income.

Audit results

Summary of audit findings

5.559 There were no moderate or significant audit issues noted during the 2005–06 audit.

Civil Aviation Safety Authority

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	118.0	122.6
Total expenses	120.5	110.1
Total assets	67.6	62.9
Total liabilities	36.5	29.4

5.560 The decrease in income was due to a reduction in appropriations in line with the Government's long-term funding strategy, partially offset by an increase in regulatory service fees due to an increase in the rates.

5.561 Expenses increased due to major changes to the Authority's organisational structure. The increased focus on system safety and on risk identification resulted in a number of Air Transport positions being abolished, resulting in significant redundancy and separation costs, and new headquarters being established.

5.562 These reform program initiatives also contributed to the increase in assets. The Authority invested in new software development and equipped the new head office in 2005–06.

5.563 The increase in liabilities also resulted from the above reform initiatives, specifically the provision for separation and redundancy costs due to the restructure.

Audit results

Summary of audit findings

5.564 There were no significant or moderate audit issues noted during the 2005–06 audit.

National Capital Authority

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	19.9	20.2
Total expenses	20.4	20.2
Total assets	19.6	16.5
Total liabilities	11.1	7.5

5.565 Income and expenses remained stable between 2004–05 and 2005–06, with no significant movements noted.

5.566 The increase in assets is largely related to receivables and cash held at year end in relation to progress payments and funds received in advance for specific construction projects and memorials. An increase in appropriation receivables and additions to infrastructure, plant and equipment have also contributed to the increase in total assets.

5.567 Liabilities have increased essentially due to monies received in advance for construction of memorials. In addition increases were noted for outstanding supplier payments associated with storm damage repairs and accrued expenses relating to water and sewerage utility costs.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	1.6	5.3
Total expenses	10.2	14.6
Total assets	414.6	414.7
Total liabilities	0.9	0.3

5.568 The decrease in administered income is principally attributable to a reduction in the sale of assets and to a lesser extent, reductions in contributions for the construction of commemorative works.

5.569 The decrease in administered expenses was the result of an asset revaluation decrement being recorded in 2004–05 with no comparative transaction for 2005–06. In addition, the cost of assets sold in 2005–06 was lower than for the prior year.

5.570 Total assets and liabilities have remained stable between 2004–05 and 2005–06, with no significant movements noted.

Audit results

Summary of audit findings

5.571 There were no significant or moderate audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.572 There were no significant or moderate audit issues impacting on non-material entities within the portfolio.

Treasury Portfolio

Reporting Entity	Material Entity	Audit Report	Opinion Issued	Audit Issues
Department of the Treasury	**Yes**	✓	22 Aug 06	▲
Australian Accounting Standards Board	No	✓	26 Sep 06	
Australian Auditing and Assurance Standards Board	No	✓	26 Sep 06	
Australian Bureau of Statistics	**Yes**	✓	31 Jul 06	
Australian Competition and Consumer Commission	No	✓	29 Aug 06	▲
Australian Office of Financial Management	**Yes**	✓	14 Aug 06	
Australian Prudential Regulation Authority	No	✓	17 Aug 06	
Australian Reinsurance Pool Corporation	**Yes**	✓	26 Sep 06	
Australian Securities and Investments Commission	**Yes**	✓	19 Jul 06	
Australian Taxation Office	**Yes**	✓	25 Sep 06	▲ ◆
Australian Valuation Office	No	✓	11 Sep 06	
Corporations and Markets Advisory Committee	No	✓	29 Aug 06	
HIH Claims Support Ltd	No	✓	22 Sep 06	
Office of the Inspector General of Taxation	No	✓	06 Sep 06	
National Competition Council	No	✓	28 Aug 06	
Productivity Commission	No	✓	04 Aug 06	
Reserve Bank of Australia	**Yes**	✓	10 Aug 06	
Reserve Bank of Australia Officers' Superannuation Fund	No	✓	19 Oct 06	
Royal Australian Mint	No	✓	06 Sep 06	◆

✓: audit report not modified
E : audit report contains an emphasis of matter
Q : audit report contains a qualification
A: audit report contains additional statutory disclosure
☞: financial year end date other than 30 June 2006

✏: signed financial statements not presented for audit at this time
▲: moderate or significant issues reported previously not yet resolved
◆: new moderate or significant issues noted

Portfolio overview

5.573 The Treasury portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. This entails the provision of policy advice to portfolio Ministers, which seeks to promote a sound macroeconomic environment; effective government spending and taxation arrangements; and well functioning markets. It also entails the effective implementation and administration of policies that fall within the portfolio Ministers' responsibilities.

5.574 The following comments relate only to material entities in the portfolio.

Department of the Treasury

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	140.9	188.2
Total expenses	123.6	171.2
Total assets	78.9	105.2
Total liabilities	34.9	42.9

5.575 The Royal Australian Mint (RAM) became a prescribed agency from 1 July 2005, resulting in the transfer of functions from the Department of the Treasury (the Treasury) to the RAM. The impact of this transfer was a decrease in the income, expenditure, assets and liabilities of the Treasury. The decrease in income related to the transfer to the RAM was marginally offset by additional appropriation revenue from government for new policy proposals and additional funding for existing policies, including funding for the hosting of the Asia Pacific Economic Cooperation Finance Ministers in 2007, Labour Force Participation modelling and the Financial Reporting Council.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	2 169.6	1 474.2
Total expenses	38 639.7	36 697.1
Total assets	20 432.6	15 685.3
Total liabilities	5 097.8	5 119.3

5.576 The increase in administered income was primarily related to an increase in the dividend from the Reserve Bank of Australia.

5.577 Expenses increased due to higher payments made to the State and Territory Governments for Goods and Services Tax (GST) collections as a result of growth in economic activity. In addition, new policy proposals implemented in 2005–06 included Compensation for GST Revenue foregone, which resulted in additional payments to the State and Territory Governments. These increases were partially offset by a decrease in net foreign exchange losses as a result of the depreciation of the Australian Dollar against other currencies.

5.578 The significant increase in administered assets can be attributed to an increase in the value of investments held in Australian Government entities, in particular the Reserve Bank of Australia, in line with the requirements of the Australian Equivalents to International Financial Reporting Standards (AEIFRS). These investments are now required to be reported at their fair value at each reporting date, whereas previously they were recorded at their 30 June 1997 net asset value, adjusted for capital injections and returns.

5.579 Administered liabilities have decreased marginally due to the payment of claims relating to the HIH Claims Support Scheme, resulting in a fall in the provision.

Audit results

Summary of audit findings

5.580 The ANAO identified no new moderate or significant issues since March 2006. However, one moderate issue raised as part of the interim audit remained outstanding. This issue relates to network access, particularly the management of user accounts and privileged accounts. These identified weaknesses increased the risk of unauthorised access to the system. Treasury have undertaken to address this matter.

5.581 The progress of action on this issue will be examined by the ANAO during the 2006–07 financial statement audit.

5.582 The following table provides a summary of the status of previously reported audit issues as well as of new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	0	0	0	0
B	1	0	0	1
Total	**1**	**0**	**0**	**1**

Australian Bureau of Statistics

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	339.0	290.7
Total expenses	338.9	290.0
Total assets	170.7	148.8
Total liabilities	113.0	102.4

5.583 The increases in both income and expenditure were primarily due to additional funding received and additional costs incurred in preparation for the 2006 Census, which was carried out in August 2006. The increased expenditure impacted both employee and supplier expenses.

5.584 The value of assets increased in 2005–06 due to a revaluation increment for infrastructure, plant and equipment, along with the addition of new building fitouts during the current year.

5.585 Increases in lease incentives recognised in the current period were the primary cause of the rise in liabilities. Lease incentives were recognised for two office leases, which were entered into in the current year. In addition, the recognition and measurement requirements under AEIFRS for leases with fixed escalation clauses and fitout incentives, resulted in increased lease incentives being recognised in 2005–06.

Audit results

Summary of audit findings

5.586 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Office of Financial Management

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	9.5	9.0
Total expenses	8.6	8.1
Total assets	11.3	10.3
Total liabilities	1.3	1.1

5.587 The financial results of the Australian Office of Financial Management (AOFM) have remained relatively stable in comparison to 2004–05. The increase in assets reflects an increase in appropriation receivables of which a significant portion has been quarantined for the future enhancement and replacement of debt management systems.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income before re-measurements	3 450.3	3 131.4
Total expenses before re-measurements	5 693.5	5 920.3
Re-measurements (gain)	910.7	0.0
Total assets	21 144.3	29 311.6
Total liabilities	58 927.3	59 174.2

5.588 The application of AEIFRS has significantly impacted on the reporting requirements and measurement methodology adopted for administered financial assets and financial liabilities by the AOFM. The significant adjustments include the separate disclosure of re-measurements, representing unrealised market gains or losses on financial instruments.

5.589 The increase in income from 2004–05 to 2005–06 resulted from higher average investment levels and an increase in investment yields on term deposits. This was partially offset by a decline in the interest rate swap revenue primarily due to a lower volume of swap outstandings in 2005–06 as compared to 2004–05.

5.590 The reduced volume in swap outstandings also had a corresponding impact on interest expenditure, resulting in a decrease in interest rate swap expenses for 2005–06 as compared to 2004–05. Other impacts on expenses included a decrease in Treasury bond interest, due to the replacement of maturing debt with new issuance at lower interest rates, and an increase in grant payments marking finalisation of debt assistance arrangements with the States and the Northern Territory.

5.591 The movement in assets primarily represents a decrease in investments resulting from transfers of $18 billion to the Australian Government Future Fund and $2 billion to the Communications Fund, and $1.5 billion required to fund redemptions of Commonwealth Government Securities. This was offset by additional investments arising from the Australian Government budget surplus.

5.592 Liabilities decreased marginally as at 30 June 2006 as compared to 30 June 2005. During 2005–06 there were net maturities of Treasury bonds and the maturity of the August 2005 Treasury Capital Indexed bond series. These were largely offset by an increase in the value of financial liabilities due to the adoption of a fair value measurement methodology from 1 July 2005.

Audit results

Summary of audit findings

5.593 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Reinsurance Pool Corporation

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	113.4	96.1
Total expenses	4.0	3.0
Total assets	281.7	159.5
Total liabilities	61.0	48.2

5.594 The movement in income was largely attributed to an increase in investment revenue. In 2005–06 the Australian Reinsurance Pool Corporation (ARPC) maintained investments with the Reserve Bank of Australia (RBA) as in 2004–05 and invested additional surplus cash with their fund manager, Suncorp Metway. There was also a marginal increase in the weighted average interest rate that contributed to the increase in investment revenue.

5.595 ARPC's increased expenditure in 2005–06 largely related to higher employee expenses and an increase in the acquisition costs incurred. Employee expenses were higher due to a rise in salary rates in accordance with the annual review and the addition of two new employees. Acquisition costs incurred relate to those costs associated with obtaining and recording general insurance contracts. This increase related to the 'Cedant Review Program', which resulted in a consultant being engaged to perform a review of a number of ARPC's cedants (policy holders) to ensure that the premium revenue remitted was accurate.

5.596 The increase in assets was primarily attributed to an increase in the collection of premium and investment revenue that was subsequently invested with the RBA and Suncorp Metway. In 2005–06 an amount of $100 million was allocated to Suncorp Metway and invested in cash deposits, term deposits and government securities.

5.597 The increase in ARPC's liabilities was primarily due to an unsettled investment at 30 June 2006. ARPC purchased an investment through fund manager, Suncorp Metway on 30 June 2006 however, at balance date the funds had not been transferred from ARPC's bank account.

Audit results

Summary of audit findings

5.598 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Securities and Investments Commission

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	224.7	208.1
Total expenses	218.0	208.5
Total assets	78.3	58.2
Total liabilities	67.9	57.1

5.599 The increase in income was largely due to funding from Government for additional audit regulation responsibilities accompanying the *Sarbanes-Oxley Act 2002* in the United States, litigation and enforcement costs for specific matters, additional costs arising from the Government's corporate insolvency law reform initiatives and the introduction of the superannuation choice of fund reforms.

5.600 The increase in expenditure was due to several factors. Employee expenses were higher due to a rise in salary rates in accordance with the certified agreement, and increases in the employer contribution rates for both the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Supplier expenses were higher largely from expenses associated with the initiatives mentioned above, in addition to higher levels of IT replacement and upgrade activity and more learning and development expenses incurred throughout the year.

5.601 The movement in assets is attributable to higher levels of cash on hand and in deposits due to increased Government funding, and from reduced principal payments for assets under finance lease. These increases were partly offset by a decrease in the appropriation receivable, with all appropriations drawn down in 2005–06.

5.602 The increase in liabilities was primarily due to higher accruals for specific litigation projects, capital purchases and general expenses.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	585.9	568.4
Total expenses	47.8	49.0
Total assets	76.2	73.4
Total liabilities	4.2	4.7

5.603 The increase in administered income was due to an increase in the number of registered companies which primarily contributed to the increases in the annual review fees and other fees and charges, as prescribed in the Corporations (Fees) Regulations.

5.604 The decrease in administered expense is primarily a result of a reduction in the provision for statutory debt arising from the adoption of AEIFRS.

5.605 The increase in administered assets is due to a reduction in the provision for statutory debt mentioned above.

5.606 No significant movements in liabilities occurred in 2005–06.

Audit results

Summary of audit findings

5.607 There were no moderate or significant audit issues noted during the 2005–06 audit.

Australian Taxation Office

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	2 517.5	2 434.2
Total expenses	2 525.9	2 459.3
Total assets	763.2	737.1
Total liabilities	805.6	778.6

5.608 The increase in income is primarily attributable to an increase in appropriation revenue and for new budget measures such as extended promotion for the 30 per cent Childcare Rebate and Operation Wickenby.

5.609 The increase in expenses was impacted by the new budget measures mentioned above, and a rise in salary rates in accordance with the certified agreement.

5.610 The small increase in total assets was due to an increase in non-financial assets resulting from the capitalisation of development and implementation costs relating to the Change Program, partially offset by a reduction in both the appropriation receivable and cash, in line with the decrease in payables.

5.611 The increase in liabilities was primarily due to the recognition of lease incentives for the ATO's new head office. In addition, there was an increase in employee provisions due to a pay rise in accordance with the certified agreement partially offset by the decrease in payables.

Items administered on behalf of the Australian Government

Key financial measures for year	2006 $m	2005 $m
Total income	238 619.0	221 723.0
Total expenses	11 151.0	13 544.0
Total assets	20 760.0	18 920.0
Total liabilities	7 493.0	6 214.0

5.612 In prior years, all taxation revenue within the ATO's financial statements was accounted for under the Economic Transaction Method (ETM) basis. During the current financial year, the Australian Government has determined that the ETM approach be adopted for all items of taxation revenue across the Australian Government where it can be reliably measured. This is because it is conceptually the better recognition and measurement methodology in the current accrual budgeting and reporting framework. Notwithstanding the adoption of ETM on a conceptual basis, the Australian Government also determined that the Taxation Liability Method (TLM) be used for the individual and other withholding tax, companies and superannuation taxation, all of which have a history of significant revisions to ETM based estimates. In order to bring consistency to Australian Government reporting, a change in accounting policy has been adopted by the ATO to recognise taxation revenue on a Hybrid (ETM/TLM) basis. This brings into alignment budget and financial reporting for taxation revenue across the Australian Government.

5.613 Income tax revenue grew by almost 8 per cent. Individual Income Tax revenue was higher as a result of the continuing strength in labour market conditions and high dividend and investment incomes, partially offset by tax rate reductions introduced on 1 July 2005. Company Tax revenue increased, reflecting strong income growth across a number of industries, particularly in the mining and finance sectors. Solid growth in consumption has boosted indirect tax revenue, especially the GST.

5.614 Expenses including benefits, subsidies and other expenses decreased overall by 18 per cent in 2005–06. This was particularly due to a $2.7 billion decline in expenses associated with the bad and doubtful debts, predominately as a result of a change in the debt provisioning methodology in 2004–05. In addition, in 2005–06 it was identified that in 2004–05 there had been an overstatement in the General Interest Charge (GIC) remission expense calculated by the ATO. In accordance with the accounting standards, this was corrected in 2005–06 by reducing the 2005–06 remission expense.

5.615 The increase in assets was largely attributable to increases in receivables and accrued revenue, for similar reasons as identified for revenue growth.

5.616 The rise in liabilities was primarily due to higher provisioning for refunds coinciding with the increase in accrued revenue explained above, in addition to an increase in accrued personal benefit expenses due to the introduction of a number of new measures relating to family tax benefits and superannuation co contribution.

Audit results

Summary of audit findings

5.617 In the interim phase of the audit, the ANAO reported nineteen issues to be addressed by the ATO to support the adequacy of internal controls and the reliability of information reflected in the financial statements. The ATO has devoted a significant level of resources and proactively worked on resolving these issues. The ATO had effectively addressed three significant risk and seven moderate risk issues by the completion of the audit. In addition, two significant risk issues relating to the preparation of financial statements and adequacy of supporting documentation have been addressed to the extent that they can now be reclassified to moderate risk issues.

5.618 The issue relating to the GIC has been significantly resolved with the posting of the GIC revenue and remission expense amounts to taxpayer accounts. Due to significant levels of activity occurring on the affected taxpayer accounts and restricted system functionality, it was impracticable to quantify the difference between GIC revenue and remission expenses calculated in 2004–05 through the calculation module and the amount subsequently posted to the taxpayer accounts in 2005–06. The more significant unquantified differences related to the remission expense. In accordance with accounting standards, the effect of the variances in the GIC revenue and overstatement of remission expense is required to be determined and disclosed for all prior periods unless it is impracticable. The effect of the variances in the GIC revenue and overstatement of remission expense has been recognised prospectively in the 2005–06 financial statements as it was impracticable to determine and disclose amounts relating to prior periods.

5.619 The above situation raises significant concern relating to the capabilities of the ATO's system (in this case specifically the GIC module) to provide an adequate audit trail at the aggregate level between financial years, and appropriate financial information, if similar errors occur in the future. The ATO needs to ensure that adequate steps are put in place in the design of accounting systems and records to enable a retrospective correction should similar errors arise again.

5.620 There were two new significant and two new moderate issues identified during the final phase of the audit that require remedial action by the ATO. A summary of all outstanding issues is provided below.

Significant Risk Matters - Category A

Security Classification

5.621 The Commonwealth Protective Security Manual (PSM) sets out the policies, practices and procedures required to achieve an appropriate security environment within the Australian Government. The PSM requires agencies to follow the Australian Government Information and Communications Technology Security Manual (ACSI 33) and use the Australian Government security classification system for identifying official resources that require a level of protection.

5.622 For the 2005–06 financial year, the ATO classified selected documentation supporting year end financial statements and Final Budget Outcome balances to the level of PROTECTED, as compromising this information could cause damage to the Australian Government and its national financial and economic interests.

5.623 Once a classification has been applied to information, the agency must apply the minimum standards for the protection of the resources as detailed in the PSM and ACSI 33. Security classified information must be retained in an environment that provides an appropriate level of protective security. Instances were noted where information classified as PROTECTED had been maintained in a lower-rated 'IN-CONFIDENCE' environment. This increases the risk of unauthorised or inappropriate access to the information, heightening the risk of the data being compromised. In addition, decisions on security classifications of particular documentation were being made on an ad hoc basis.

5.624 The PSM requires agencies to have a system that identifies all security classified information held, especially where the classification is not normal or standard for that agency, and encourages agencies to have a procedure for confirming initial security classifications. The ATO has been advised that its security policy in relation to classified documents should be followed on a consistent basis across the organisation.

Administered Cash Reconciliation

5.625 Cash reconciliations are an important control to ensure the validity, accuracy and completeness of information contained in the business systems and general ledger. It was noted that the bank reconciliation which reconciles the general ledger to the physical cash through the bank statements is performed effectively. In November 2005, with the implementation of a financial management information system (SAP 3.2) project to align the general ledger with the business systems, the cash reconciliation processes between the general ledger and the business systems changed significantly. In the interim phase of the audit the reconciliation processes were being developed.

5.626 During the final audit phase, there were continuing variances between the cash balances per the business system and the balances per the general ledger which were only resolved during the preparation of the financial statements. On a number of occasions there was a lack of a clear audit trail in the documentation supporting the reconciliations between the general ledger and Department of Finance and Administration cash records. In addition, there were inaccuracies in the spreadsheets developed to support the reconciliations. This situation also led to an immaterial unexplained variance in the balance relating to cash transferred to and from the Official Public Account in the financial statements.

5.627 The timely reconciliation of cash balances in the general ledger with the business system and Department of Finance and Administration records, and maintenance of an adequate audit trail, is critical for effective management of the movement of administered cash through the ATO.

Moderate Risk Matters – Category B

Preparation of the Administered Financial Statements

5.628 As in prior years, the departmental financial statements are prepared in a structured manner. Significant concerns have been raised over the years on the ATO’s ability to prepare the administered financial statements effectively within the restricted timeframe. The implementation of the SAP 3.2 project in November 2005 which automated the data integration from the business systems to the general ledger has, to some extent, made the process more transparent and effective. Additional work, over and above the SAP 3.2 project, is also undertaken to prepare the financial statements for end of year reporting.

5.629 Notwithstanding that progress has been made in the administered financial statement preparation process, the ANAO still considers that this matter represents a risk to the ATO. The ATO was finalising significant processes supporting the financial statements up to the date of completing the first draft of the statements. A trial of the preparation of the financial statements was performed for the period ending February 2006. However, the full benefits of this trial were not realised due to methodologies not being finalised, quality assurance and sign off by management not being completed, analysis of the accuracy of general interest charge calculation not being resolved, and the financial statement preparation manual still being updated.

5.630 There have been improvements in the documentation provided to support the administered financial statement balances. However, further improvements are required in the reconciliation processes, the preparation of work papers, including evidence supporting manual journals, the obtaining of third party confirmations, the provision of timely responses to audit queries and the overall quality assurance process.

Supporting Documentation

5.631 The ATO's administered financial statements contain a significant number of revenue and expense allocations and estimates. In previous years, concerns were raised regarding deficiencies in the level of supporting documentation relating to the estimation and allocation processes, and the audit trail critical to the identification of the data sources supporting the balances in the financial statements. During the final audit, improvements were noted by the ANAO in the quality of supporting evidence for estimates and allocations. Further improvement is needed in respect of the provision of supporting evidence on a consistent basis.

5.632 Documentation supporting administered financial statement balances and various reconciliations was found to be insufficient and required reworking. There were instances where certain system generated reports, if re-run at a later time, would not produce the figure used in determining the financial statement balances. This raises concerns regarding the reliability of reports used to support certain administered financial statement balances.

5.633 This issue was reported as a significant risk at the interim phase of the audit. Based on the ATO's progress in addressing this issue, the matter has now been reclassified as a moderate risk issue.

Superannuation Holding Account Special Account

5.634 The Superannuation Holding Account Special Account (SHASA) is designed to receive small superannuation amounts from employers who cannot find a superannuation provider that accepts these small amounts. In prior years, the ATO has identified discrepancies between the value of the SHASA business system record and the balance disclosed in the financial statements, which was obtained from the record in its financial management information system (FMIS). A review of the SHASA account indicated that there were a number of historical adjustments to the account that were processed in the business system. However, it was unclear whether these adjustments were recognised in the FMIS and ultimately in the financial statements.

5.635 During the review of the 2005–06 financial statement balances, ANAO requested a reconciliation of the SHASA opening and closing balances in the business system with the FMIS general ledger. The review noted that the prior year discrepancies have not yet been cleared. This raises concerns over the adequacy of accounts and records maintained by the ATO on this special account.

Data Warehouse - Disaster Recovery Plan

5.636 A data warehouse tool is considerably relied upon in the manipulation of data for the preparation of the ATO's financial statements. During the audit process, the ANAO observed that there was insufficient comprehensive detail regarding the data warehouse in the ATO's disaster recovery plan. The ATO has informed the ANAO that they have recently undertaken work to address this issue.

Outstanding Moderate Risk Matters

5.637 Reasonable progress is being made to resolve the seven outstanding moderate risk issues from the interim audit phase. The ANAO recommended improvements in relation to:

- the costing of internally developed software;
- non-compliance with delegation limits;
- establishing or updating agreements for the provision and receipt of services between the ATO and other Australian Government entities;
- the controls surrounding the debt management process;
- the development and implementation of controls self assessment framework;
- finalising business continuity plans for all critical business processes, information technology systems and sites; and
- the purchasing and payables configuration within the FMIS.

5.638 Action on these issues is ongoing and will be examined by ANAO during the 2006–07 financial statements audit.

Conclusion

5.639 The ATO's financial statements, on a year on year basis, are subject to volatility, in particular, the balances for administered revenues and expenses. In addition, a number of adjustments are being made to the financial statements as a result of the ANAO's audit work. Notwithstanding this, the ATO has made a very conscious effort to address the issues raised by the ANAO. Actions have already been taken or are in process to rectify the issues raised previously. The Audit Committee has taken a proactive role in the financial statement process and is continuing to improve governance arrangements. Central to this will be the need for heightened executive management oversight and the enhancement of the financial control framework.

5.640 The following table provides a summary of the status of previously reported audit issues as well as new audit issues raised since March 2006.

Ratings	Opening position at March 2006	Issues resolved prior to August 2006	New issues to August 2006	Closing position at August 2006
A	5	5*	2	2
B	14	7	4*	11
Total	**19**	**12**	**6**	**13**

* includes two issues reclassified from Category A to Category B

Reserve Bank of Australia

Financial results

Summary of entity results

Key financial measures for year	2006 $m	2005 $m
Total income	4 498.0	1 562.0
Total expenses	2 405.0	1 478.0
Total assets	105 447.0	85 271.0
Total liabilities	94 239.0	75 668.0

5.641 Total income increased in 2005–06 due to:

- an increase in income from overseas investments as a result of gains from the favourable movement of the Australian dollar against the US Dollar;
- increases in Euro interest rates and an increase in the average level of foreign assets held;
- increases in local interest rates;
- increased earnings on repurchase agreements; and
- significant increases in foreign exchange gains in 2006 against a net loss in 2005.

5.642 Expenses rose as a result of higher interest rates and a higher level of deposits.

5.643 Assets and liabilities increased as a result of the higher level of Government deposits, held as bank bills and certificates of deposit, arising from the Government's fiscal surplus, and an increase in the market value of the foreign exchange portfolio as a result of favourable rate movement in the currencies held. These funds were invested primarily in the foreign exchange portfolio through discount securities and repurchase agreements.

Audit results

Summary of significant audit findings

5.644 There were no moderate or significant audit issues noted during the 2005–06 audit.

Comments on non-material entities

5.645 There were no moderate or significant issues impacting on non-material entities, with the exception of the Australian Competition and Consumer Commission and the Royal Australian Mint.

Australian Competition and Consumer Commission

5.646 The ANAO identified no new moderate or significant issues in 2005–06. However, one issue remained outstanding from 2004–05.

5.647 Although progress had been made, and selected areas within ACCC did have business continuity plans, the ACCC did not have an overarching businesses continuity plan in place. As a result, in the event of failure of, or damage to, vital services or facilities, the ACCC may not be able to re-establish key business operations in a timely manner.

Royal Australian Mint

5.648 The Royal Australian Mint (RAM) became a prescribed agency from 1 July 2005, having previously been a business operation reported within the Department of the Treasury.

5.649 The ANAO identified the following four issues of moderate risk during the audit of the Mint:

- although Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP) had been developed for individual business units, there was no formal entity-wide BCP or DRP in place. As a result, in the event of failure of, or damage to, vital services or facilities, the Mint may not be able to re-establish key business operations in a timely manner. This matter was also raised in 2004–05;
- there were weaknesses in the IT security environment of the payroll processing system, including inadequacies in password controls and a lack of audit trails to log user access. This increases the risk of unauthorised changes, or inappropriate access, to payroll data. The lack of audit logs may result in any accidental or inappropriate activity not being traceable to individuals;
- there were no operating procedures for IT system administrators and no reviews of their access. This increases the risk of some operational tasks not being performed and of staff retaining system access that is no longer required. This matter was also raised in 2004–05; and
- inventory standard costs recorded in the financial management information system were not reviewed and adjusted for fluctuations in metal prices during 2005–06, and as a result, inventory and cost of goods sold were understated, and expenses were overstated, by significant amounts. Adjustments totalling $3.3 million were made to the relevant accounts in the year to 30 June 2006.

5.650 The ANAO recognises that a contributing factor to some of the above issues was that the RAM lost a number of key IT and financial management staff during 2005–06. The RAM advised of appropriate remedial action in relation to the each of the issues and of the appointment of new staff in the IT and finance sections.

Ian McPhee	Canberra ACT
Auditor-General	19 December 2006

Appendices

Appendix 1: Significant Findings by Major Entity

For the interim phase of the audit cycle, as part of the 2005–06 financial statement audit, the ANAO reported 'A' rated findings (significant business or financial risks) for three entities; (excluding the Department of Defence and the Defence Materiel Organisation). The ANAO reported findings for these entities, the Australian Customs Service (ACS), the Department of Immigration and Multicultural Affairs (DIMA), and the Australian Taxation Office (ATO), in relation to the following:

- Business continuity (ACS);
- Integrated Cargo System user access management controls (ACS);
- Application Security for Visa Business Systems (DIMA);
- Application and General IT Environment Change Management (DIMA);
- Preparation of Administered Financial Statements (ATO);
- General Interest Charge (ATO);
- Supporting Documentation (ATO);
- Management Analysis of Estimation Processes (ATO);
- Superannuation Surcharge System Processing (ATO).

Further details of the aforementioned findings, and about the 'B' category findings, in various entities are included in Part 5 of Audit Report No.48 2005–06. Table 1 of this report summarises a number of 'A' and 'B' findings included in Audit Report No.48 2005–06. Table 2 provides a summary of all 'A' and 'B' findings as at 31 August 2006.

Table A1

‘A’ and ‘B’ ratings by entity at 31 March 2006

Entity	2006 Rating		2005 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	1	0	0
Attorney-General's Department	0	5	1	3
Australian Customs Service	2	5	0	6
Department of Communications, Information Technology and the Arts	0	0	0	0
Department of Defence	TBA	TBA	40*	49*
Defence Materiel Organisation	TBA	TBA	N/A	N/A
Department of Veterans' Affairs	0	4	0	2
Department of Education, Science and Training	0	0	0	0
Department of Employment and Workplace Relations	0	0	0	1
Department of Environment and Heritage	0	11	0	8
Department of Families, Community Services and Indigenous Affairs	0	8	0	12
Department of Finance and Administration	0	0	0	1
Centrelink	0	5	0	4
Department of Human Services	0	4	N/A	N/A
Department of Foreign Affairs and Trade	0	0	0	0
Department of Health and Ageing	0	1	0	1
Department of Immigration and Multicultural and Indigenous Affairs	2	4	1	4
Department of Industry, Tourism and Resources	0	2	0	2
Department of Prime Minister and Cabinet	0	0	0	0
Department of Transport and Regional Services	0	2	0	1
Department of theTreasury	0	1	0	2
Australian Office of Financial Management	0	0	0	0
Australian Taxation Office	5	14	7	12
Total	**9**	**67**	**9***	**59***

Note: N/A means not applicable.
TBA means the audit was still in progress at the time of publication of Audit Report No.48 2005–06.

*The totals for 2004–05 excluded the Department of Defence as there are no comparative 2005–06 figures available.

Table A2

‘A’ and ‘B’ ratings by material entity at 31 August 2006

Entity	2006 Rating		2005 Rating	
	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	1	0	0
Grains Research and Development Corporation	0	0	0	0
Attorney-General's Department	0	6	0	3
Australian Customs Service	1	4	0	4
Australian Federal Police	0	2	0	3
Family Court of Australia	0	0	0	0
High Court of Australia	0	1	0	0
Department of Communications, Information Technology and the Arts	0	0	0	0
Australian Broadcasting Corporation	0	0	0	0
Australian Communications and Media Authority	0	1	0	0
Australian Postal Corporation	0	0	0	0
Australian Sports Commission	0	0	0	0
National Archives of Australia	0	0	0	1
National Gallery of Australia	0	0	0	0
National Library of Australia	0	0	0	0
National Museum of Australia	0	2	0	0
Special Broadcasting Service Corporation	0	0	0	2
Telstra Corporation Ltd	0	0	0	0
Department of Defence	29*	40*	TBA	TBA
Australian War Memorial	0	0	0	0
Defence Housing Authority	0	1	0	0
Defence Materiel Organisation	6*	9*	TBA	TBA
Department of Veterans' Affairs	0	3	0	0
Department of Education, Science and Training	0	0	0	0
Australian Nuclear Science and Technology Organisation	0	0	0	0
Australian Research Council	0	0	0	0
Commonwealth Scientific and Industrial Research Organisation	0	0	0	0
Department of Employment and Workplace Relations	0	0	0	1
Coal Mining Industry (Long Service Leave Funding) Corporation	0	0	0	0

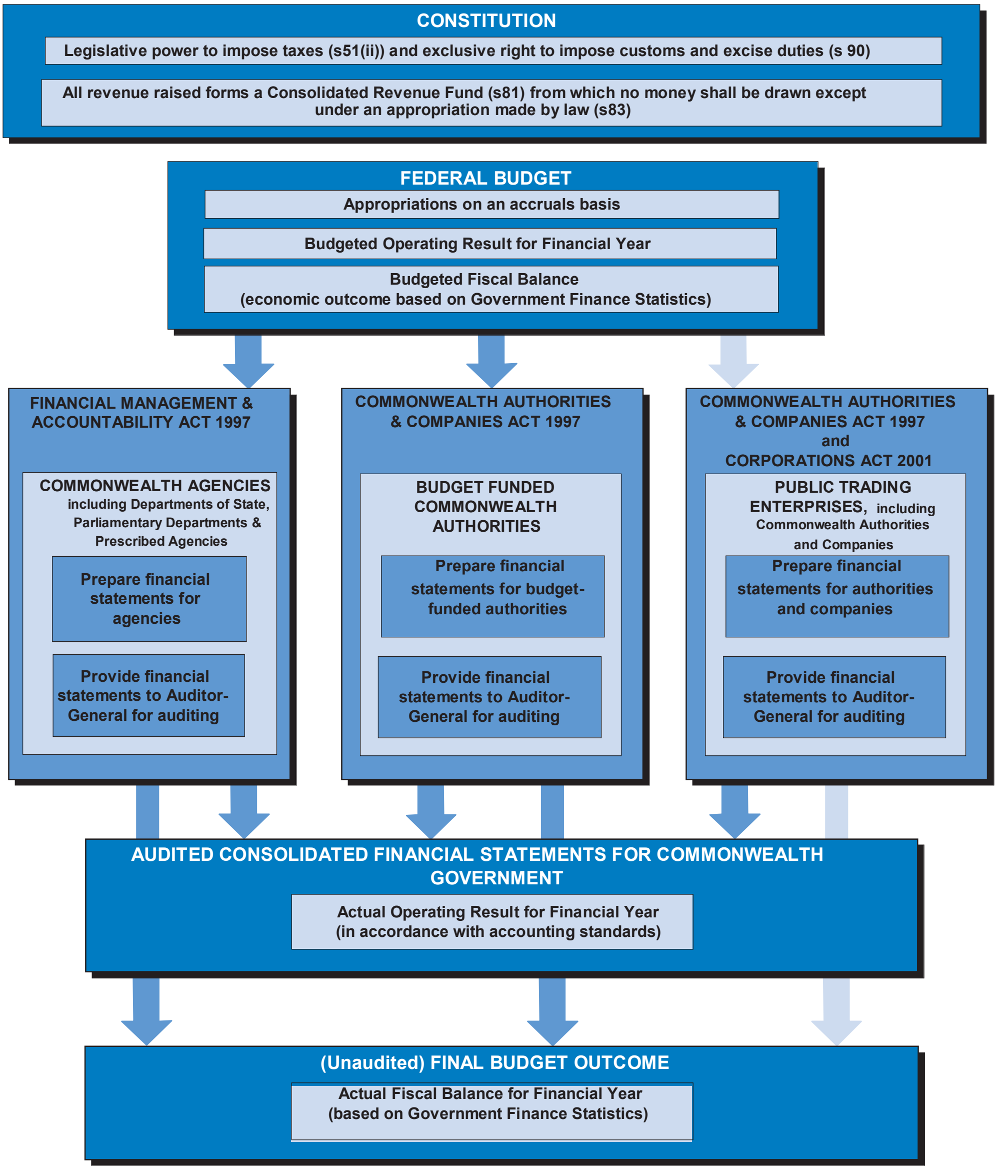
Entity	2006 Rating		2005 Rating	
	A	B	A	B
Comcare Australia	0	0	0	1
Indigenous Business Australia	0	0	0	0
Department of Environment and Heritage	0	0	0	11
Bureau of Meteorology	0	0	0	0
Department of Families, Community Services and Indigenous Affairs	0	7	0	14
Aboriginal and Torres Strait Islander Land Fund Account	0	0	0	0
Department of Finance and Administration	0	0	0	0
ASC Pty Ltd	0	1	0	0
Australian Electoral Commission	0	0	0	0
Australian Hearing Services	0	0	0	0
Australian Industry Development Corporation	0	0	0	0
Centrelink	0	5	0	4
Department of Human Services^	0	2	0	1
Health Insurance Commission/ Medicare Australia	0	1	0	2
Medibank Private Ltd	0	0	0	0
The Future Fund	0	0	N/A	N/A
Department of Foreign Affairs and Trade	0	0	0	0
Australian Agency for International Development	0	0	0	0
Australian Trade Commission	0	0	0	0
Export Finance and Insurance Corporation	0	0	0	0
Department of Health and Ageing	0	1	0	1
National Blood Authority	0	1	0	1
Department of Immigration and Multicultural Affairs	2	4	0	4
Department of Industry Tourism and Resources	0	2	0	0
Tourism Australia**	0	0	0	0
Department of Parliamentary Services	0	0	0	0
Department of the Prime Minister and Cabinet	0	1	0	0
Department of Transport and Regional Services	0	1	0	7
Airservices Australia	0	0	0	0
Australian Rail Track Corporation	0	0	0	0
Civil Aviation Safety Authority	0	0	0	0
National Capital Authority	0	0	0	0
Department of the Treasury	0	1	0	0

Entity	2006 Rating		2005 Rating	
	A	B	A	B
Australian Bureau of Statistics	0	0	0	0
Australian Office of Financial Management	0	0	0	0
Australian Reinsurance Pool Corporation	0	0	0	0
Australian Securities and Investments Commission	0	0	0	0
Australian Taxation Office	2	11	4	15
Reserve Bank of Australia	0	0	0	0
Total	**40**	**108**	**4**	**75**

Note: N/A: Not applicable
*: These findings are after the completion of the 2005–06 interim audit. Issues arising from the final phase of the audit will be included in a later report.
**: Entity was renamed in 2004–05 to Tourism Australia from Australian Tourist Commission.
^: These entities commenced as reporting entities of the Australian Government in 2004–05.
TBA means at the time of publication of this report the number and classification of Category 'A' and 'B' findings for the Department of Defence were not finalised.

Appendix 2: The Financial Reporting Framework

The financial reporting framework is outlined in the diagram below. Then follows an overview of the financial reporting requirements for the various types of Australian Government entities covered by the framework. Finally, the audit of the financial statements of these entities is described.



Source: ANAO

Commonwealth Government of Australia

Section 55 of the FMA Act requires the Finance Minister to prepare annual financial statements for the Commonwealth Government of Australia. These financial statements are a general purpose financial report consolidating the financial activities and financial position of all entities, authorities and other entities controlled by the Commonwealth Government.

The financial statements for the year ended 30 June 2006 and the audit report thereon were published in December 2006. The results of the audit are reported in Chapter Two of this report.

Commonwealth agencies

Commonwealth agencies are legally part of the Commonwealth Government and are subject to the provisions of FMA Act. They comprise departments of State, Parliamentary departments and prescribed agencies.

The FMA Act requires agency Chief Executives to prepare financial statements for their agencies in accordance with FMOs. The FMOs include a requirement that the statements comply with accounting standards issued by the Australian Accounting Standards Board.

Commonwealth authorities and subsidiaries

Commonwealth authorities are bodies corporate that hold money on their own account and have been created by the Parliament to perform specific functions. Authorities operate under their own enabling legislation and generally must comply with provisions of the CAC Act.

The CAC Act requires the governing bodies of authorities to prepare financial statements in accordance with the FMOs. Directors must also ensure that subsidiaries prepare financial statements in accordance with the *Corporations Act 2001* (where applicable) and the CAC Act.

Commonwealth companies and subsidiaries

Commonwealth companies are companies in which the Commonwealth has a controlling interest. Commonwealth companies operate and prepare financial statements under the *Corporations Act 2001* and provisions of the CAC Act.

Directors of a Commonwealth company must ensure subsidiaries of the company prepare financial statements in accordance with the *Corporations Act 2001* and the CAC Act.

Other bodies

The ANAO also audits the financial statements of other bodies controlled by the Commonwealth or where the Commonwealth has significant influence. These consist primarily of trusts or joint ventures entered into by controlled Commonwealth bodies.

Audit of Commonwealth Government financial statements

Audit scope

The Chief Executives of agencies, and the directors of authorities and companies, are responsible for the truth and fairness of the financial statements and for the records, controls, procedures and organisation that support the preparation of those statements. The ANAO's independent audits of financial statements are undertaken to form an opinion whether, in all material respects, the statements are true and fair.

The audits are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing and Assurance Standards (AUS), to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Audit procedures include examination of the entity's records and its control environment, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and accounting policies and significant accounting estimates are evaluated.

While entity control structures are evaluated as an integral part of the audit process, only those systems and controls, on which it is intended to place reliance for the purpose of determining audit procedures leading to audit opinions on the financial statements, are evaluated in detail. In some audits, audit procedures concentrate primarily on substantiating the amounts appearing in the financial statements and do not include a detailed testing of systems and internal controls.

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. An audit conducted in accordance with AUS is designed to provide reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent. However, the auditor is not responsible for the prevention of fraud and error.

The audit report on financial statements

The audit report on the financial statements includes a statement of the auditor's opinion as to whether the statements give a true and fair view of the entity's financial position, the results of its financial operations and its cash flows in accordance with AAS, and other mandatory professional reporting requirements, and statutory requirements.

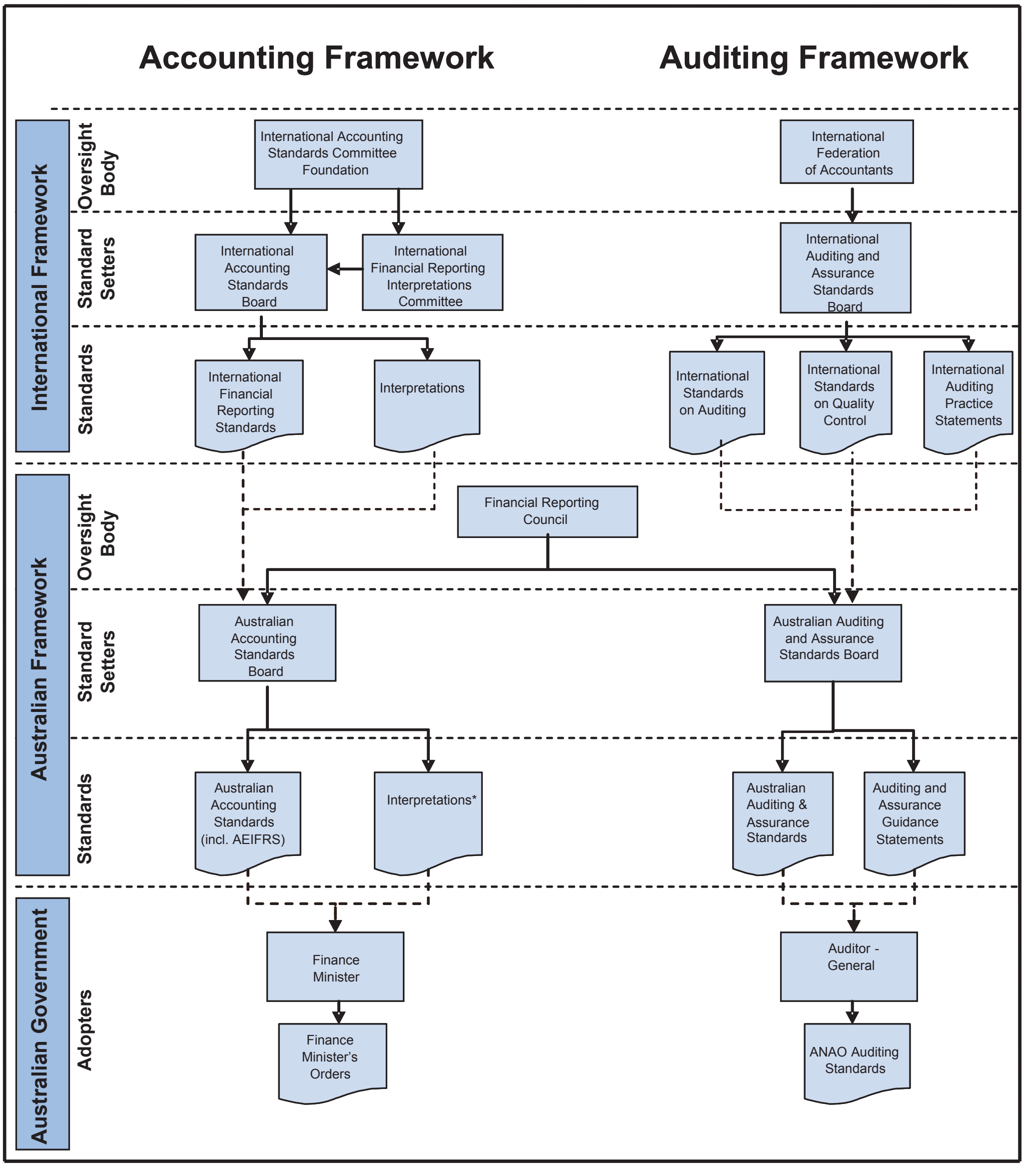
If the auditor is not satisfied the financial statements are true and fair, the audit opinion is qualified, with the reasons being indicated. Audit reports may be qualified because of a disagreement between the auditor and management of the entity on the application of accounting standards or other reporting requirements, because the scope of the audit work needed to form an opinion has been limited in some way, or if there was a conflict between AAS and the requirements of the FMOs.

An audit report may contain an 'emphasis of matter' to draw attention to a matter that is relevant to the readers of the financial statements. An 'emphasis of matter' does not qualify the audit opinion being given. In many cases, an 'emphasis of matter' relates to inherent uncertainty about an aspect of the financial statements, where the outcome is contingent upon future events, and the effects of the matter are not capable of reasonable measurement at the date the audit report is signed.

The audit report may also contain details on 'other matters'. Section 57 of the FMA Act requires that, in reporting to Ministers on the financial statements of Agencies, the Auditor-General must not only report on whether the statements have been prepared in accordance with the FMOs and give a true and fair view of matters required by the FMOs but must also state particulars of any contravention by a Chief Executive of section 48 of the FMA Act.

Appendix 3: The Accounting and Auditing Standards Frameworks

The figure below depicts the standard setting framework, for accounting and auditing, in the Australian Government context.



* From 1 July 2006, the AASB is responsible for accounting interpretations, formerly the responsibility of the Urgent Issues Group.

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